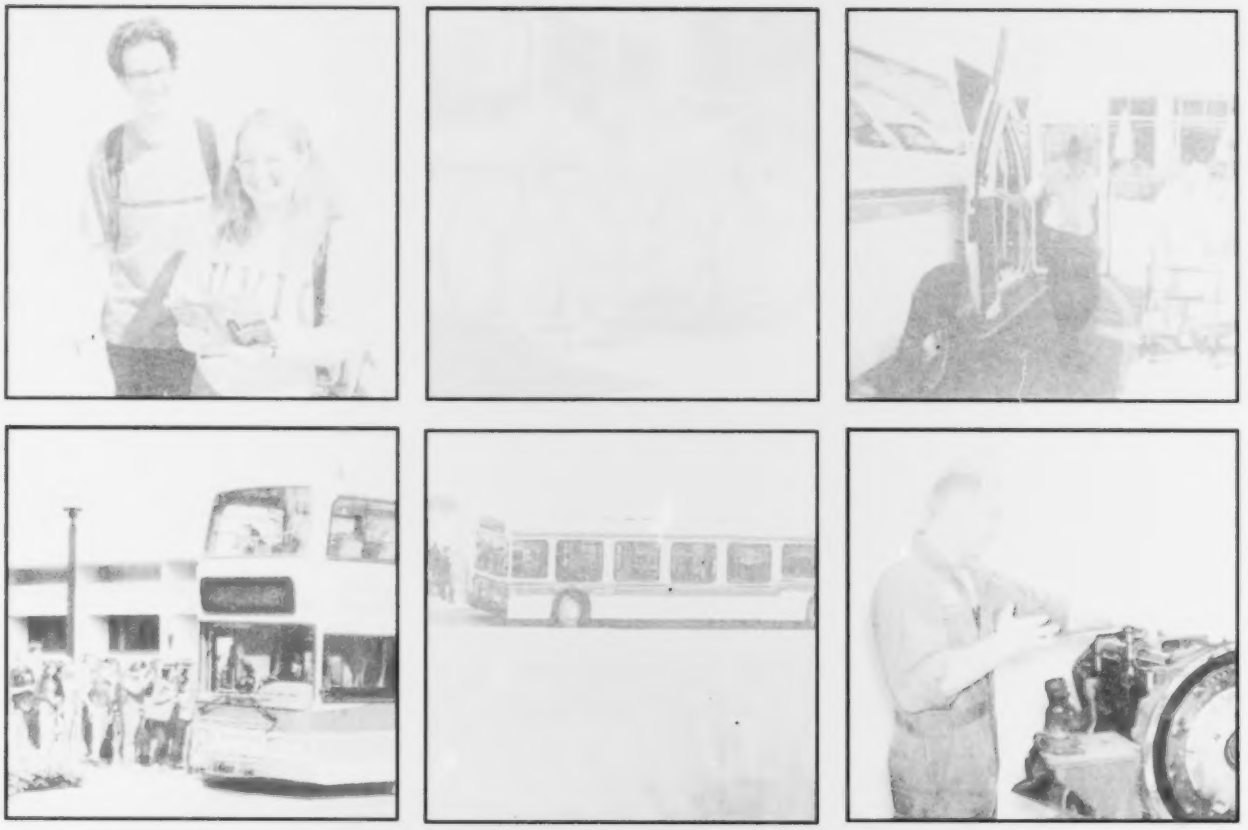

BC TRANSIT Annual Report 2003

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Her Honour

The Honourable Iona Campagnolo
Lieutenant-Governor of the
Province of British Columbia

MAY IT PLEASE
YOUR HONOUR,

I respectfully submit the
Annual Report of BC Transit
for the fiscal year ended
March 31, 2003.

Judith Reid
Minister of Transportation and Minister
responsible for BC Transit

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ORGANIZATIONAL OVERVIEW

MANDATE AND SCOPE

BC TRANSIT IS THE PROVINCIAL CROWN AGENCY CHARGED WITH COORDINATING THE DELIVERY OF PUBLIC TRANSPORTATION THROUGHOUT BRITISH COLUMBIA (OUTSIDE THE GREATER VANCOUVER REGIONAL DISTRICT). ITS MANDATE INCLUDES PLANNING, FUNDING, MARKETING AND OPERATING TRANSIT SYSTEMS - EITHER DIRECTLY OR INDIRECTLY - IN PARTNERSHIP WITH LOCAL GOVERNMENT. ACCORDING TO THE BRITISH COLUMBIA TRANSIT ACT (SECTION 3.1) THE CORPORATION IS TO:

... plan, acquire, construct or cause to be constructed public passenger transportation systems and rail systems that support regional growth strategies, official community plans, and the economic development of transit service areas", [and] "to provide for the maintenance and operation of those systems.

The scope of BC Transit's program is:

- 37 million passengers carried annually
- 52 transit service areas - 1.6 million people served in BC
- $118.9 million 2002/03 expenditures *
- fleet of 716 buses and vans
- net of provincial debt service reported separately by the Ministry of Transportation

BC Transit works as a provincial / local government / private partnership - one that benefits from a strong component of local government decision-making and private sector expertise. Victoria is the only location where BC Transit directly operates the conventional transit service. In four locations (Nanaimo, Nelson, Powell River and the Sunshine Coast) the municipality operates the service. Elsewhere private sector companies or non-profit societies deliver the service under contract to BC Transit and the municipal funding partner.

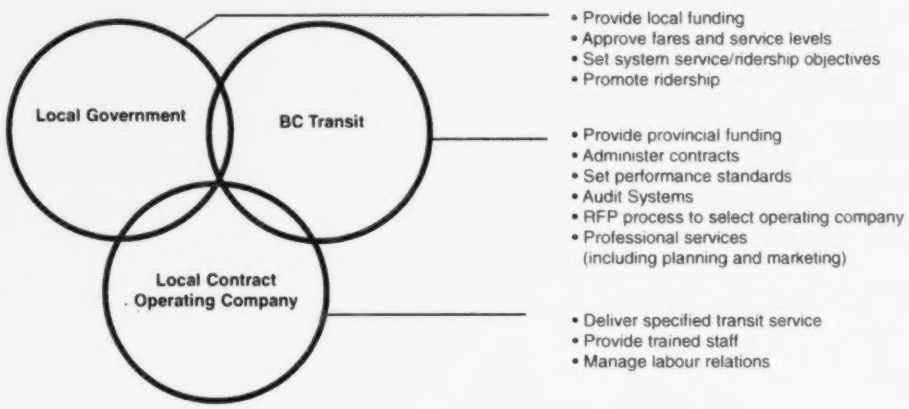
VISION AND MISSION

In recognition of the pivotal role public transportation has to play in sustaining vibrant, healthy communities, BC Transit's vision is for the:

Development of transit services, in partnership with each community, to provide essential mobility and travel choice for all residents; where costs of traffic congestion are reduced, air quality and associated health benefits enhanced, more compact and efficient urban development supported and costly new roadway construction deferred.

BC Transit's mission statement integrates the Corporation's purpose, products and client base:

To excel in the provision of safe, reliable, cost-efficient and market-focused public transportation systems that support the social, economic and environmental goals of the customers and communities served.


Local Government
BC Transit
Local Contract Operating Company
• Provide local funding
• Approve fares and service levels
• Set system service/ridership objectives
• Promote ridership
• Provide provincial funding
• Administer contracts
• Set performance standards
• Audit Systems
• RFP process to select operating company
• Professional services (including planning and marketing)
• Deliver specified transit service
• Provide trained staff
• Manage labour relations

BC Transit's Public-Private Partnership

VALUES AND GOVERNANCE FRAMEWORK

BC Transit strives to ensure that the many benefits of public transportation - providing citizens with access to jobs, education and health care; reducing transportation infrastructure and traffic congestion costs; contributing to improved air quality; and enhancing community and regional development - are realized to the fullest extent possible. BC Transit manages within the governance framework defined by the BC Transit Act and is guided by the following core values:

JOINT PROVINCIAL AND LOCAL GOVERNMENT REPRESENTATION ON THE BOARD OF DIRECTORS

The Corporation is governed by a seven-member Board of Directors (listed on page 5 of this report) appointed by the province according to the BC Transit Act. The Act requires four of the Board members to be municipally elected representatives. The Chair reports to a provincial cabinet minister.

STRONG AND TRANSPARENT LOCAL DECISION-MAKING

The local partners in the transit program, including regional districts, municipalities and the Victoria Regional Transit Commission, establish bus routes and set service levels, and raise the local share of the annual budget for transit in their local transit service areas through taxes and fares. The partners also approve the local share of the annual budget each year in open Council / Board / Commission sessions and recommend approval of the annual budget to the BC Transit Board of Directors.

OTHER CORE VALUES -

- **Partnerships and cooperation** with business, citizens, labour and local government in the provision of transit services
- **Ensuring safety and security** for customers, staff and the public
- **A market focus** to maximize service convenience and appeal to transit riders
- **Sound financial practices,** and a competitive tender process to ensure the highest value is received for dollars spent
- **Environmental stewardship** through responsible purchasing practices and facilities management, as well as support for community agencies that encourage environmentally responsible transportation.

MESSAGE FROM THE CHAIR

The year ending March 2003 was one of considerable challenge for BC Transit. As efforts to increase service efficiency and control expenditures accelerated, global events resulted in significant cost pressures in key budget areas, including fuel, insurance and employee benefits. Working within the protected program funding levels of the prior year, the Board and staff consulted with local government to identify priority local services and set targets for cost reduction. As a result of these efforts total service hours operated were maintained and total passengers carried increased by 5%.

Coming out of the Core Services Review process in the previous year, government had confirmed continuing support of transit in the Province. Nonetheless, the existing structure of BC Transit and the identification of a sustainable, longer term funding plan, in the face of the government's fiscal challenges and the continuing growth in demand, had become a priority.

In the second half of the year, the focus of the Board shifted to the development of a service and financial plan for the next fiscal year, and the beginning of a process of internal review and consultation with municipal partners on a longer term sustainable funding and governance framework.

Through correspondence and numerous face-to-face meetings, the Board and senior staff had the opportunity to discuss the current status and the future direction of BC Transit with all local government partners and other stakeholders. By year-end the Corporation was putting plans in place to see BC Transit through the 2003/04 fiscal year without major changes or reductions in programs.

Within this context the work of delivering efficient and effective transit service to more than 1.6 million British Columbians in 52 communities continues. I am confident that the BC Transit Board and staff will again meet the challenges and targets that have been set for the Corporation in the coming year.

Greg Slocombe, **Chair**

Members of the BC Transit Board of Directors

Mr. Gregory Slocombe (Chair)
City of Prince Rupert

Mayor Walter Gray
City of Kelowna

Mayor Colin Kinsley
City of Prince George

Mr. Bob De Clark (started May 2002)
District of Nanaimo

Mayor Chris Causton (started May 2002)
District of Oak Bay

Mr. Dave Fisher (started July 2002)
City of Kamloops

Mayor Don Amos (started March 2003)
Town of Sidney

David McLean (May 2002 to Nov 2002)
City of Victoria

Heather Archer (to May 2002)
City of Kamloops

Cheryl Tellier (to May 2002)
District of Nanaimo

MESSAGE FROM THE PRESIDENT

Staff focused for much of the 2002/03 fiscal year on the dual challenges of enhancing service quality and performance, while implementing administrative and service delivery methods to manage expenditures and meet tight financial targets.

The year began with a series of internal re-organization and staffing decisions which reduced administrative costs. The growing obsolescence of a number of key support systems led to the initiation of a capital program to replace the financial services, maintenance work management, human resources and scheduling systems. These systems will significantly enhance the internal information and management decision-making capability of the organization.

Exceptional cost pressures during the course of the year led to a number of actions to control expenditures. Maintenance activity and costs - in response to rapid increases in parts prices and a rise in major component failures as a large portion of the fleet approached the mid-life overhaul cycle - required an enhanced maintenance scheduling process. Some non-safety related activities were curtailed. Staff also initiated efforts to control costs through implementation of paratransit in place of some conventional bus services as well as media trading and enhancements to the competitive RFP processes used to select transit operating companies. Steps were also taken to increase revenue from non-passenger sources through property rental.

Work also continued on alternative fuels and other initiatives to improve the environmental benefits of transit. The testing of the Ballard fuel cell engines was fully underway early in the year and the results of this three-engine test are expected before the next fiscal year-end. Discussions commenced with major vehicle and component manufacturers regarding the potential use of hybrid diesel-electric drive systems in future bus orders.

While new service could not be added, service enhancements or extensions of service to new markets were implemented in a number of communities through re-allocation of service from lower performing routes. New bus pass products targeted to specific market segments played a key part in ridership development.

In a year of extraordinary challenge and rapid change, BC Transit's staff, operating companies and municipal partners successfully met established performance targets, and achieved improved ridership levels, without compromising service quality or safety.

R.H. Irwin, President and Chief Executive Officer

BC Transit Senior Management

Mr. Bob Irwin
President & CEO

Mr. Ron Drolet
Vice President, Customer Service & Corporate Secretary

Mr. Tony Sharp
Vice President, Finance & CFO

Ms. Susanne Fossey
Vice President, Human Resources

Mr. Ron Harmer
Vice President, Fleet and Facilities

Mr. Steve New
Vice President, Municipal Systems Program

THE YEAR IN REVIEW

THE YEAR IN REVIEW

HIGHLIGHTS OF FINANCIAL AND NON-FINANCIAL PERFORMANCE

PLANS CALLED FOR COST CONTAINMENT, BROADER TRANSPORTATION INTEGRATION

When plans for the year 2002/03 Service Plan were developed, the Core Services Review of all provincial government programs was underway. Within this context, BC Transit's Service Plan Fiscal Years 2002-2005 emphasized two key themes:

- A requirement for fiscal stringency, and a focus on cost containment in all BC Transit's services and programs for the coming three years. The plan was predicated on protected funding from the provincial government, set at the 2001/02 level. This required a greater emphasis on service efficiencies and the careful setting of priorities with municipal partners.
- Refining the provision of BC Transit's services to enhance the integration of public transit with all the other modes of transportation. This required maximizing the efficient utilization of public tax dollars for transportation, and the value and benefit of services for the customer. As a result there was more focus on Transportation Demand Management, and closer coordination of planning and service delivery with other provincial and municipal agencies.

An emphasis on fiscal restraint and cost efficiency, together with the best possible utilization of public transit dollars within a broader transportation context, shaped how much of the year in review evolved for BC Transit.

EXPENDITURES AND REVENUES LESS THAN BUDGET IN 2002/03

Expenditures for the year ended March 31, 2003 were $115.9 million (net of fuel cell initiatives), $786,000 less than estimated in the 2002/03 Service Plan, and marginally above the mid-year budget revision. (See NOTE box on following page for Mid-Year Service Plan and Budget Update) Expenditures were up 2% compared to 2001/02, mainly due to increases in debt servicing expense and significant increases in key cost elements such as fuel, parts and maintenance.

Operating costs (primarily labour, vehicle parts and material and fuel) comprised $103.72 million (90%) of the total expenditures, while the local share of debt servicing costs for assets in service made up the remaining $12.14 million. In addition to transit operations, BC Transit provided a provincial grant of $3.05 million for two test fuel cell engines. Including the fuel cell test, expenditures were $118.91 million.

NOTE: A mid-year budget revision / re-allocation was initiated based on first quarter expenditure trends and significant price escalation in key operating cost elements including insurance, fuel, parts and maintenance activity. The mid-year budget/service plan re-allocation summary is as follows:

Mid-Year Service Plan and Budget Update

The goals, strategies and budgets for the year under review in this Annual Report are detailed in BC Transit's Service Plan, Fiscal Years 2002-2005, and BC Transit's Service Plan, Fiscal Years 2003-2006, which are available at www.bctransit.com.

Changes between the initial and revised budget plans for the past year under review reflect service and financial adjustments between programs required to accommodate both cost and growth pressures. In addition, the initial budget was developed several months prior to the start of the 2002/03 fiscal year. Between then and the start of the fiscal year, cost factors experienced significant volatility. The key adjustments were:

- The Victoria Regional Transit System service plan was revised to specify 7,000 fewer service hours to meet local funding targets.
- The Municipal Systems Program service plan was increased by 2,000 service hours to meet regional demands.

The table below represents variances between the initial budgets for 2002/03 contained in the Service Plan 2002-2005, and the revised budgets that were based on the mid-year service adjustment and budget re-allocation. Overall, expenditures were revised down $963,000, and revenue estimates reduced by $464,000.

2002/03 SERVICE PLAN BUDGET VS. 2002/03 REVISED SERVICE PLAN BUDGET BC TRANSIT

(Figures in thousands)

	Victoria Regional Transit			Municipal Systems Program			BC Transit		
Fiscal year ended March	Initial Budget 2003	Revised Budget 2003	*Variance between budgets*	Initial Budget 2003	Revised Budget 2003	*Variance between budgets*	Initial Budget 2003	Revised Budget 2003	*Variance between budgets*
Financial									
Passenger Revenue	23,508	21,692	*(1,816)*	16,566	18,055	*1,489*	40,074	39,747	*(327)*
Advertising Revenue	1,034	965	*(69)*	438	369	*(69)*	1,472	1,334	*(138)*
Total Revenue	24,542	22,657	*(1,885)*	17,004	18,424	*1,420*	41,546	41,081	*(465)*
Operating Costs	49,067	48,237	*(830)*	54,901	55,414	*513*	103,968	103,651	*(317)*
Debt Servicing	7,154	6,625	*(529)*	5,528	5,411	*(117)*	12,682	12,036	*(646)*
Total Expenditures	56,221	54,862	*(1,359)*	60,429	60,825	*396*	116,650	115,687	*(963)*
Performance									
Service Hours	681	674	*(7)*	912	914	*2*	1,593	1,588	*(5)*
Revenue Passengers	19,236	19,796	*560*	16,592	17,815	*1,223*	35,828	37,611	*1,783*

Footnote to table:

Debt service expenditures above include only the local partner's share of debt service costs. The provincial share of debt service expenditures is funded directly by the Ministry of Transportation. In 2002/03, the Ministry funded approximately $8.77 million of debt service costs attributable to the Victoria Regional Transit System and the Municipal Systems Program. In addition, the Ministry funded debt service costs for SkyTrain and West Coast Express assets owned by BC Transit.

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EXPENDITURES AND REVENUES LESS THAN BUDGET IN 2002/03 ***continued***

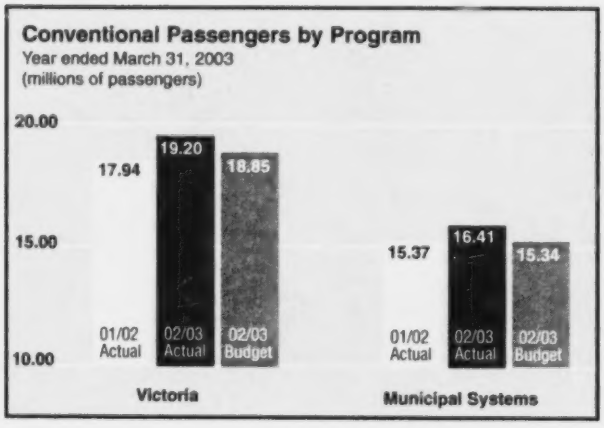
Operating revenue (primarily passenger fares) provided $40.39 million or 35% of total funding. This was $1.2 million less than the $41.55 million originally budgeted, and marginally below the revised target. This is a result of anticipated fare increases not being implemented and a shift from cash to greater use of discounted prepaid fares. This did however represent a 2.6% increase in revenue over the level achieved in the previous year, due primarily to increased ridership.

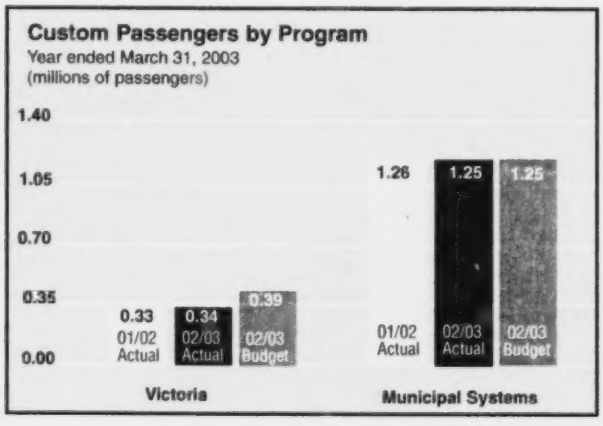
Direct provincial government contributions, net of the fuel cell engine test project costs, were $44.46 million or 38% of total funding. Municipal governments contributed $31.01 million from local tax sources. Local funding sources include general property taxation and, in the Victoria region, a 2.5 cent/litre fuel tax.

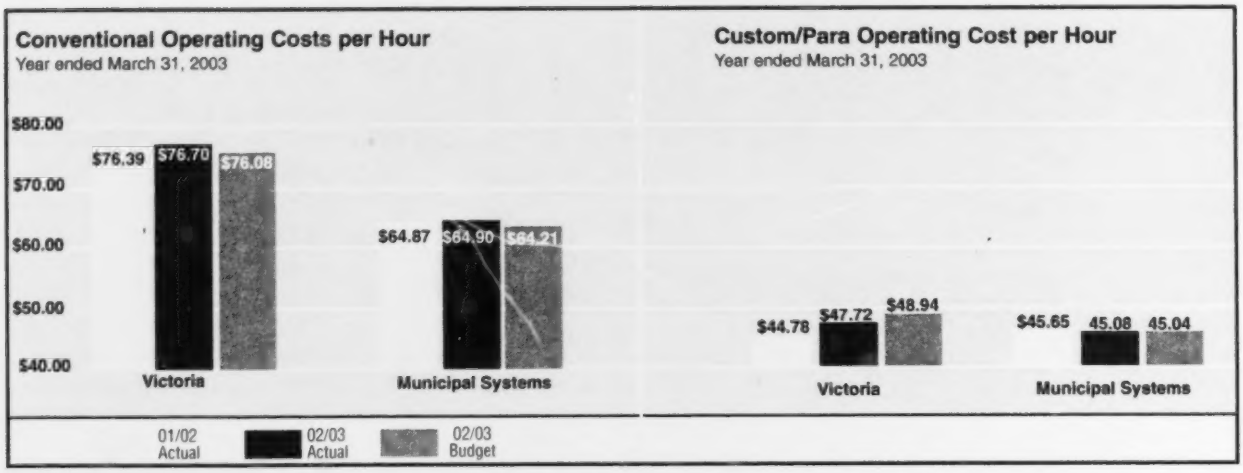
Service Levels Lower Than Plan, Ridership Grows by Two Million

Service hours provided in 2002/03 (1.58 million) were 12,000 hours less than the initial Service Plan budgets and below the revised budgets, but marginally higher than the number of service hours delivered in 2001/02.

Passengers carried in all programs combined (37.2 million) exceeded the Service Plan initial target by 1.4 million riders, an increase of 2.1 million riders over the previous year. Growth in the conventional transit systems was generally strong, and service and vehicle reallocations were required to reduce overcrowding and passenger pass-ups at the rush hour and on routes serving some major educational institutions in Victoria and some Municipal Systems. Custom transit ridership did not grow and small ridership declines were occurring in some systems by year-end. The graphics below illustrate ridership trends by program area.







Operating cost per hour marginally exceeded both the initial and revised targets, as a result of fixed costs being applied against lower service hours. Year-over-year hourly cost changes were immaterial. This was a result of a number of cost containment measures including strategic procurement, refinancing of leases to take advantage of historically low borrowing rates, and reductions in administrative and fixed cost expenditures in both BC Transit's head office in Victoria as well as Municipal Systems contracted operations.

Despite the effectiveness of the cost containment initiatives, much of the benefit realized was offset by higher input costs associated with insurance, benefits and maintenance material, with increases far in excess of general inflation rates.

OVERVIEW OF MAJOR INITIATIVES AND DEVELOPMENTS

Cost Containment Strategies

- A fixed-price futures fuel contract for 2002/03 secured this major transit cost component at U.S. $21.50 a barrel, significantly below world prices - a savings of $1.2 million compared to market rates.
- An accelerated buy-out of vehicle leases took advantage of favourable long-term borrowing rates.
- Participation with TransLink in a captive insurance program helped mitigate rising insurance rates.
- The RFP process selected private sector management companies for six Municipal Systems operations in a highly competitive tender process. In a published report the Canadian Council for Public-Private Partnerships recognized the Whistler Transit System as a successful example of private sector delivery of public transit.
- Maintenance program improvements, including more economic parts procurement systems, preventative maintenance program enhancements, the application of cost-saving technology to bus rebuilds and refurbishment programs, and improved warranty processes addressed the challenge of rising maintenance costs.
- Reductions of administrative and central corporate costs, as well as re-negotiation of fixed costs components in some of the Municipal Systems Program contracted operations were put in place.

Service Efficiency and Quality Measures

- In Victoria, service hours in areas of low use were eliminated or reduced, and re-allocated to high use areas to address growing ridership without an overall increase in service hours. Other strategies, such as queue jumpers on Highway 1, addition of more double-deck buses and short-turns on selected route segments improved operating speed and added capacity.
- In the Municipal Systems Program service innovations and adjustments, or re-allocations, targeted new market opportunities in several communities without increasing the total level of service provided.

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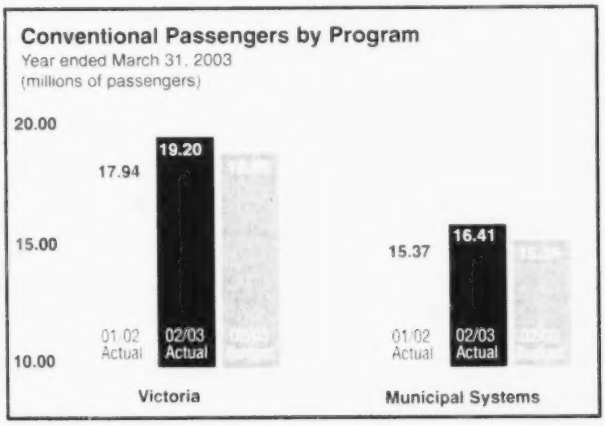

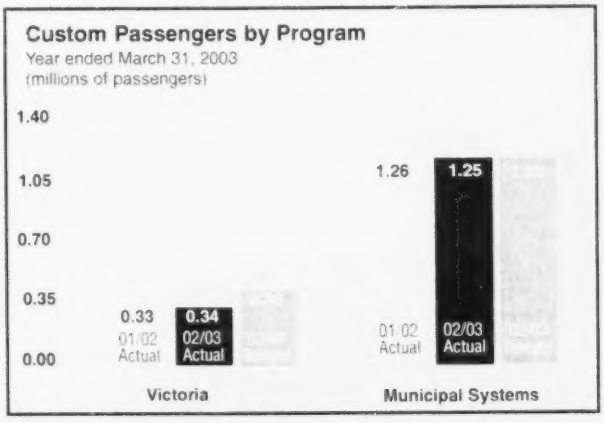

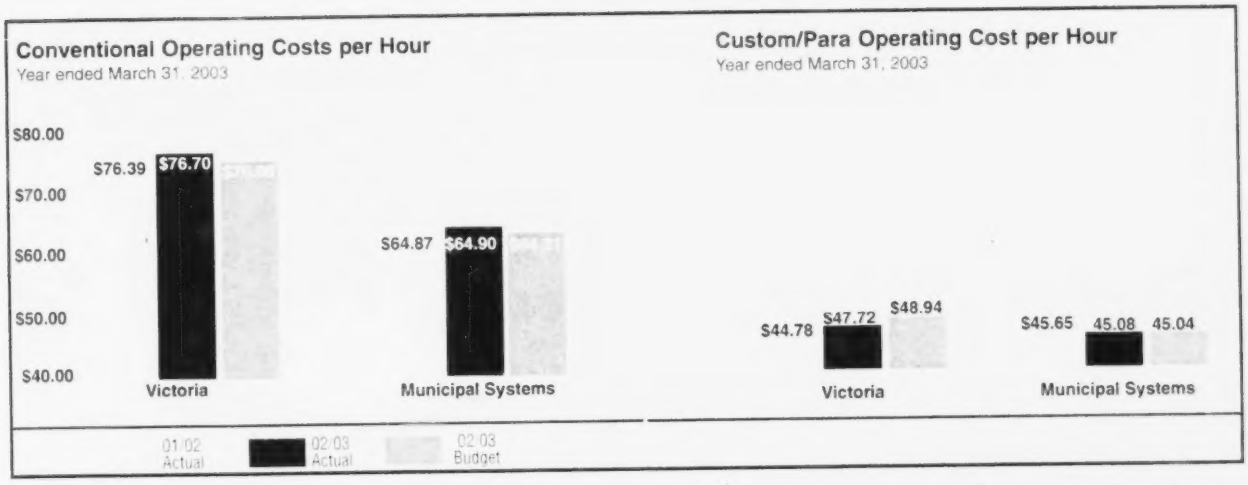

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- In the Municipal Systems Program service innovations and adjustments, or re-allocations, targeted new market opportunities in several communities without increasing the total level of service provided.

- Three double-deck buses were successfully introduced in the Kelowna Region, adding capacity and reducing total fleet requirements. Seventeen more mid-size Dart coaches acquired in the year provided greater fuel and operating efficiency on local routes.

Market Development

- New bus pass products - including a Youth Pass in Victoria, four-month pass packs for secondary and post-secondary students in the Municipal Systems, and a new VIP Day Pass in Port Edward, promoted ridership in selected markets. The U-Pass referendum, required for the mandatory fee paid by all students passed at the University of Victoria and Camosun College with an approval rating of 88%.

Community Development

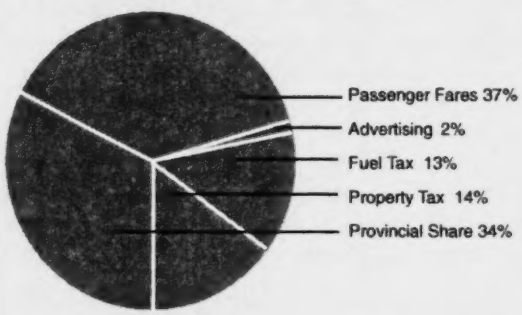
- BC Transit helped finalize plans for the Whistler local transportation strategy for the Vancouver 2010 Olympic Games bid.
- Led by BC Transit, a series of working papers on the transportation component of the Capital Regional District Regional Growth Strategy were developed.
- Planning efforts improved integration between school busing and public transit in several communities. Mid and long-range transit plans were completed for several Municipal Systems.

Environmental Developments

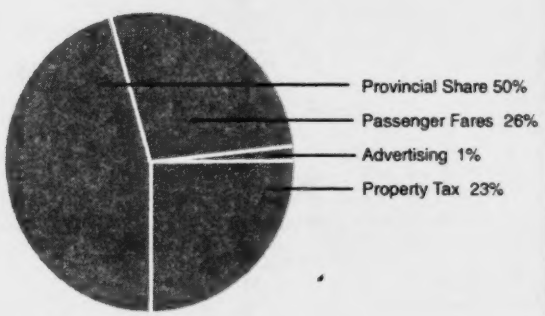
- BC Transit's participation in research aimed at developing a bridging technology for the practical implementation of the hydrogen fuel cell engine proceeded.
- BC Transit staff played a leading role in the preparation of the City of Victoria's application for funding under Transport Canada's "Urban Transportation Showcase Program". A decision on the 4 to 6 cities to be selected is expected in September 2003. Kelowna and Central Okanagan, with assistance from BC Transit applied jointly for funding for higher capacity/speed transit service from the Federation of Canadian Municipalities' "Green Enabling Fund".

Sources of Funds for Transit Transit services are funded under established cost sharing formulas by the province and the local government partners. The local government share includes passenger fares and advertising plus property taxes (with a fuel levy surcharge in the Victoria region).

The graphics below show the source of funds for the Victoria Regional Transit System and the Municipal Systems Program. The province also provides a grant for its share of capital expenditures, and the imputed debt service on this expenditure is included in the provincial share.



VICTORIA REGIONAL
TRANSIT SYSTEM
Funding Sources per Dollar



MUNICIPAL SYSTEMS
PROGRAM
Funding Sources per Dollar

REPORT ON PERFORMANCE

FUNDING AND GOVERNANCE STATUS

During the second half of the fiscal year the Board of Directors undertook a review of the funding and service strategy of the corporation. With tight fiscal limits, significant cost pressures and increasing demand for transit service, the Board commenced the review with an initial focus on interim action required to sustain the programs and services delivered by BC Transit through 2003/04. This work was followed by a second phase to consult with local government partners on the current funding and service delivery activities and the future direction of transit programs that would best meet community needs and priorities.

The initial (Phase 1) outcome resulted in a three-part strategy sequence:

1. finding service and administrative efficiencies
2. eliminating low priority service
3. providing flexibility in the fixed funding formula

By year-end work was well underway on the implementation of this interim strategy. The Phase 2 consultation process including exchange of correspondence and meetings with all municipal funding partners was also nearing completion at year-end.

SERVICE DELIVERY

VICTORIA REGIONAL TRANSIT SYSTEM

BC Transit plans and directly operates the conventional bus system in Greater Victoria on behalf of the Victoria Regional Transit Commission. The region's custom transit system is contracted to a private company, Farwest handyDART Services Inc.

Service Overview - Focus on Reallocation and Efficiency Measures

The Service Plan for the 2002/03 period envisaged very little change in fleet and service hours, predicated upon modest change in economic activity and population, cost pressures and funding constraints. BC Transit forecasted that transit ridership in the year 2002/03 would grow by an average 2% (double the rate of population growth, but less than the rate of growth in the previous three years). In contrast the forecast called for custom transit passenger levels to increase by 4%. The Service Plan outlined a number of measures to contain costs and improve convenience, including the addition of more double-deck buses and transit priority measures.

Faced with increased ridership, BC Transit responded over the course of the year by reducing services in areas of low use, and increasing services in areas of growing use. Other strategies, such as "short turns" - in which not all scheduled trips run the full length of a route, enabling increased frequency on the busiest sections - increased capacity on selected route segments.

The incorporation of more double-deck buses in the fleet also added to capacity on heavily travelled major corridors.

In partnership with the Ministry of Transportation and Highways, BC Transit implemented queue jumpers outbound at Highway 1 at Tillicum and at McKenzie, increasing bus operating speeds and schedule reliability in congested areas to enhance service for customers.

Improvements were made to customer information signage, including a pilot project using solar powered lighting to improve the visibility of schedule information and passenger security at ten bus stops at night.

BC Transit conducted a monthly tracking survey of attitudes towards, and usage of, the Victoria Regional Transit System. Patterns remained generally unchanged, with choice riders (those who had a car available for the trip) continuing to represent the majority of bus users. Survey results also suggested that with service resources limited, and passenger expectations for service improvements increasing, BC Transit will be challenged to maintain its present market share in the future.

Performance and Financial Summary Conventional Transit

Conventional transit in the Victoria region carried 19.2 million passengers in 2002/03, exceeding the target by 2% and 7% higher than the level of 17.9 million achieved the previous year. (Year-over-year results are not strictly comparable for the Victoria conventional system due to a 14-day strike in April of 2001.) Growth occurred primarily along major corridors and on the Saanich Peninsula. Service hours delivered totalled 570,000, 1.7% less than the original budget plan.

Expenditures for conventional transit were $50.10 million, below budget by 2% as a result of a lower number of delivered hours, and reduced administrative expenditures and debt service charges. Year-over-year expenditures were up 2% primarily due to higher priced input costs, including fuel, maintenance and parts.

The system achieved a farebox cost recovery level of 44%, below budget but above the level of the previous year. This was the result of a reduction in average fare paid due to increased use of the more heavily discounted prepaid fare media, and no fare increase during the year. Combined fare and advertising revenues were $22.16 million.

Productivity, measured as passengers per service hour, exceeded the budget by 4%, reflecting increasing ridership, and fewer service hours. The operating cost per passenger was 3% lower than budget, and 6% below the previous year.

The operating cost per hour was $76.70 or $0.62 (1%) greater than the plan. This was primarily a result of higher vehicle parts prices, fuel prices, employee benefits costs and due to fixed costs being applied against fewer service hours.

Performance and Financial Summary Custom Transit

The Victoria Regional handyDART service carried a total of 275,000 passengers, and provided a further 62,000 rides by taxi, for a total of 337,000 custom transit passengers. This was above the previous year but 13% lower than the target number of rides in the initial 2002/03 Service Plan. The reduced growth in handyDART ridership is attributed largely to economic factors, and reduced program activities in the community for this client group.

Hours of service were 3% below budget, while custom transit expenditures were $4.85 million or 7% below budget. Revenues were considerably (24%) below target, mainly the result of the Commission's decision to align custom with conventional fares, i.e. handyDART clients can purchase a regular bus pass and use both accessible conventional service and handyDART. There was no fare increase in custom transit last year.

The number of passengers carried per service hour was above the prior year but 8% less than the plan target, reflecting lower growth in ridership. The operating cost per hour was $47.48 or 3% favourable to plan. The operating cost per passenger exceeded the plan by 7% as a result of fixed costs being applied against fewer passengers and lower than anti- cipated use of taxi services.

PERFORMANCE & FINANCIAL SUMMARY
VICTORIA REGIONAL TRANSIT SYSTEM
(Figures in thousands, except performance ratios)

	Actuals				2003/04 - 2005/06 Service Plan			
	2001	2002	**2003**	Initial Budget 2003	Revised Budget 2003	Budget 2004	Budget 2005	Budget 2006
VICTORIA - CONVENTIONAL								
Financial		* 14 day strike						
Passenger Revenue	20,179	20,615	**21,279**	23,081	21,317	21,530	21,746	21,963
Advertising Revenue	835	888	**880**	1,034	965	1,023	1,085	1,000
Total Revenue	21,014	21,503	**22,159**	24,115	22,282	22,553	22,831	22,963
Operating Costs	43,415	43,387	**43,720**	44,124	43,492	44,861	44,352	44,054
Debt Servicing	4,558	5,618	**6,376**	6,868	6,378	7,480	7,947	8,095
Total Expenditures	47,973	49,005	**50,096**	50,992	49,870	52,341	52,299	52,149
Performance								
Service Hours	603	568	**570**	580	573	570	564	557
Revenue Passengers	18,738	17,937	**19,197**	18,850	19,455	19,650	19,846	20,045
Revenue Passengers per Service Hour	31.1	31.6	**33.7**	32.5	34.0	34.5	35.2	36.0
Cost Recovery (Total)	43.8%	43.9%	**44.2%**	47.3%	44.7%	43.1%	43.7%	44.0%
Operating Cost per Service Hour	$72.00	$76.39	**$76.70**	$76.08	$75.90	$78.70	$78.64	$79.09
Operating Cost per Revenue Passenger	$2.32	$2.42	**$2.28**	$2.34	$2.24	$2.28	$2.23	$2.20
VICTORIA - CUSTOM								
Financial								
Passengers Revenue	391	350	**326**	427	375	382	384	392
Advertising Revenue	-	-	-	-	-	-	-	-
Total Revenue	391	350	**326**	427	375	382	384	392
Operating Costs	4,147	4,478	**4,629**	4,943	4,745	4,848	5,018	5,194
Debt Servicing	148	206	**225**	286	247	332	306	288
Total Expenditures	4,295	4,684	**4,854**	5,229	4,992	5,180	5,324	5,482
Performance								
Service Hours	94	100	**98**	101	101	102	103	104
Revenue Passengers	295	331	**337**	386	341	365	370	386
Revenue Passengers per Service Hour	3.1	3.3	**3.5**	3.8	3.4	3.6	3.6	3.7
Total Cost Recovery	9.1%	7.5%	**6.7%**	8.2%	7.5%	7.4%	7.2%	7.2%
Operating Cost per Service Hour	$44.12	$44.78	**$47.48**	$48.94	$46.98	$47.53	$48.72	$49.94
Operating Cost per Revenue Passenger	$14.06	$13.53	**$13.74**	$12.81	$13.91	$13.28	$13.56	$13.46

MUNICIPAL SYSTEMS PROGRAM

BC Transit provides planning, marketing, fleet management, contract administration and funding for transit services for the Municipal Systems Program, made up of 24 conventional, 31 paratransit and 14 custom transit systems.

Service Overview - Cost Containment, Efficiency Reviews

In response to funding challenges, and the anticipated reduction in economic activity in certain regional economies, BC Transit revised its original Strategic Plan to 2012 for the Municipal Systems Program. As a result the 2002/03 Service Plan for the Municipal Systems Program targeted a 2.2% reduction in conventional transit service hours, carried out in accordance with priorities set by local government.

The plan also detailed a requirement for service efficiency reviews in all transit systems. These identified corporate or system-based cost and service efficiencies. Savings implemented included a negotiated decrease in fixed cost payments to operating companies, and a reduction in non-essential vehicle cleaning and servicing.

Following this process, a funding shortfall for the existing level of service still existed. BC Transit therefore, identified and implemented a 1.5% service reduction in all conventional Municipal Program transit systems. In six communities, however (Chilliwack, Cranbrook, Nelson, Penticton, Port Alberni and the Sunshine Coast) local government through innovative revenue arrangements or direct charter with the operating company, decided to continue to deliver the existing service hour allotment rather than cut service.

Service Innovations

Service innovations included:

- A new winter and holiday service to Silver Star North Okanagan, in partnership with the Silver Star Mountain Resort. The Resort contributed to the marginal cost of the service, which uses a 22-seat minibus equipped to carry ski equipment. Initial results have been very promising, with most trips operating at close to or above seated capacity.
- Limited Saturday service in the North Okanagan, with funding made possible by reallocating savings from operating company service efficiencies.
- Expansion of summer service on the Sunshine Coast. The Regional District, which is both the funding partner and operator of the service, reallocated funds from within its budget to meet this priority need.
- A new "Ride Home" paratransit service for students attending late evening classes at the University College of the Fraser Valley, in the Central Fraser Valley Transit System.
- Express trips to the northwest Community College service in Terrace.
- Introduction of handyDART in Port Edward. This was achieved through a partnership with the Prince Rupert Custom Transit System and reallocation of under-used service.
- Adjustment to service in Smithers to include flexible, route deviation service for both the paratransit and handyDART clientele.
- A limited new service to Sliammon Village, achieved through schedule restructuring and a joint agreement between the District of Powell River and Sliammon First Nation.

Performance and Financial Summary
Conventional Transit

The Municipal Systems Program conventional transit program carried 16.4 million passengers, exceeding budget by 7%, and up more than 5% (900,000 rides) compared to the previous year. The increase was primarily due to system-specific planning, which resulted in successful reallocations of services budgeted to specific market groups in Chilliwack, Cranbrook, Powell River and Terrace. There were also double digit growth numbers posted for Sunshine Coast, Comox Valley, and Whistler. Minor declines were experienced in a few systems based on local economic and market factors. Service hours were marginally above budget.

Expenditures for conventional transit were $48.57 million, above budget by 1% as a result of increased maintenance costs and higher than anticipated insurance rates. This was an increase compared to 2001/02. Fare and advertising revenues were $16.18 million, above budget by 6% and also up slightly compared to the year prior. Cost recovery was 33%, above budget by 5% due to increased ridership and strong BC Bus Pass sales.

PERFORMANCE & FINANCIAL SUMMARY
MUNICIPAL SYSTEMS PROGRAM
(Figures in thousands, except performance ratios)

	Actuals			2003/04 - 2005/06 Service Plan				
	2001	2002	2003	Initial Budget 2003	Revised Budget 2003	Budget 2004	Budget 2005	Budget 2006
MUNICIPAL SYSTEMS PROGRAM - CONVENTIONAL								
Financial		*15-week strike, Prince George*						
Passengers Revenue	13,903	15,377	**15,796**	14,822	16,238	15,353	15,710	16,300
Advertising Revenue	450	388	**381**	424	357	310	316	328
Total Revenue	14,353	15,765	**16,177**	15,245	16,595	15,663	16,026	16,628
Operating Costs	40,810	43,070	**43,766**	43,100	43,643	42,496	42,317	42,116
Debt Servicing	3,804	4,217	**4,804**	4,806	4,681	5,070	5,346	5,687
Total Expenditures	44,614	47,287	**48,570**	47,906	48,324	47,566	47,663	47,803
Performance								
Service Hours	639	664	**674**	671	675	603	596	590
Revenue Passengers	14,492	15,567	**16,409**	15,343	16,509	15,265	15,327	15,593
Revenue Passengers per Service Hour	22.7	23.4	**24.3**	22.9	24.4	25.3	25.7	26.4
Total Cost Recovery	32.2%	33.3%	**33.3%**	31.8%	34.3%	32.9%	33.6%	34.8%
Operating Cost per Service Hour	$63.91	$64.87	**$64.90**	$64.21	$64.63	$70.47	$71.02	$71.32
Operating Cost per Revenue Passenger	$2.82	$2.77	**$2.67**	$2.81	$2.64	$2.78	$2.76	$2.70
MUNICIPAL SYSTEMS PROGRAM - CUSTOM/PARA								
Financial								
Passengers Revenue	1,539	1,718	**1,705**	1,745	1,818	1,879	1,930	1,982
Advertising Revenue	14	14	**19**	14	12	11	11	11
Total Revenue	1,553	1,732	**1,724**	1,759	1,830	1,890	1,941	1,993
Operating Costs	10,832	11,649	**11,610**	11,801	11,771	12,025	12,168	12,314
Debt Servicing	487	629	**734**	722	730	738	753	768
Total Expenditures	11,319	12,279	**12,344**	12,523	12,501	12,763	12,921	13,081
Performance								
Service Hours	223	236	**239**	240	238	240	240	240
Revenue Passengers	1,132	1,262	**1,247**	1,249	1,306	1,307	1,316	1,324
Van Passengers	993	1,082	**1,084**	1,064	1,114	1,112	1,120	1,129
Van Passengers per Service Hour	4.4	4.6	**4.5**	4.4	4.7	4.6	4.7	4.7
Total Cost Recovery (Van only)	14.7%	15.2%	**15.0%**	15.2%	15.8%	16.0%	16.2%	16.4%
Operating Cost per Service Hour (Van only)	$45.08	$45.65	**$45.08**	$45.04	$45.59	$46.28	$46.88	$47.48
Operating Cost per Van Passenger (Van only)	$10.14	$9.97	**$9.93**	$10.18	$9.75	$9.97	$10.02	$10.08

Productivity, measured by passengers per service hour exceeded budget by 6%, reflecting continuing growth in ridership. As a result the operating cost per passenger was favourable to budget by 5%.

The average operating cost per hour was $64.90, above budget by 1%. As noted above, this is a result of higher vehicle maintenance and insurance costs.

Performance and Financial Summary Custom and Paratransit

The plan for 2002/03 forecast stable passenger levels in the custom and paratransit program. In the course of the year 1.25 million passengers were carried, below budget by 0.1%. This countered the pattern of ever-increasing ridership displayed throughout the history of the custom program. The drop-off in demand for handyDART in some markets was at least partly due to recent changes in the structure and delivery of community support services in the province.

Service hours delivered were 0.4% below budget as a result of slightly reduced demand for van rides and taxi service. Custom and paratransit expenditures were $12.34 million or 1% below budget. Revenue from the program was $1.72 million, below budget by 2%. Cost recovery was below budget by 1% as a result of the slight reduction in total passengers.

Van passengers carried per service hour was above budget as hours were adjusted to meet demand. The van operating cost per hour was $45.08, slightly above budget as a result of higher maintenance expenditures. The operating cost per van passenger was below budget by 2%.

FIVE-YEAR HISTORICAL COMPARISON OF FINANCIAL AND OPERATING RESULTS

Victoria Regional Transit System

The table below presents the key financial and operating results for the past five fiscal years. A 14-day strike occurred in April 2001.

KEY FINANCIAL & OPERATING RESULTS
Victoria Regional Transit System
Figures in thousands, except performance ratios

	2003	2002*	2001	2000	1999**
Victoria - Conventional					
Financial		* *14 day strike*			** *8 day strike*
Passenger Revenue	**21,279**	20,615	20,179	19,613	18,470
Advertising Revenue	**880**	888	835	662	466
Total Revenue	**22,159**	21,503	21,014	20,274	18,936
Operating Costs	**43,720**	43,387	43,415	42,014	39,265
Debt Servicing***	**6,376**	5,618	4,558	4,295	6,364
Total	**50,096**	49,005	47,973	46,309	45,629
Performance					
Service Hours	**570**	568	603	598	559
Revenue Passengers	**19,197**	17,937	18,738	17,667	17,080
Revenue Passengers per Service Hour	**33.7**	31.6	31.1	29.5	30.5
Total Cost Recovery	**44.2%**	43.9%	43.8%	43.8%	41.5%
Operating Cost per Service Hour	**$76.70**	$76.39	$72.00	$70.26	$70.24
Operating Cost per Revenue Passenger	**$2.28**	$2.42	$2.32	$2.38	$2.30
Victoria - Custom					
Financial					
Passenger Revenue	**326**	350	391	363	347
Advertising Revenue	**-**	-	-	-	-
Total Revenue	**326**	350	391	363	347
Operating Costs	**4,629**	4,478	4,147	3,677	3,313
Debt Servicing***	**225**	206	148	136	385
Total	**4,854**	4,684	4,295	3,813	3,698
Performance					
Service Hours	**98**	100	94	85	79
Revenue Passengers	**337**	331	295	260	253
Revenue Passengers per Service Hour	**3.5**	3.3	3.1	3.1	3.2
Total Cost Recovery	**6.7%**	7.5%	9.1%	9.5%	9.4%
Operating Cost per Service Hour	**$47.48**	$44.78	$44.12	$43.26	$41.94
Operating Cost per Revenue Passenger	**$13.74**	$13.53	$14.06	$14.14	$13.09

****After 1998/99 the Provincial Government provided a grant for their share of debt servicing costs.*

Municipal Systems Program

The table below presents the key financial and operating results for the past five fiscal years.

KEY FINANCIAL & OPERATING RESULTS
Municipal Systems Program
Figures in thousands, except performance ratios

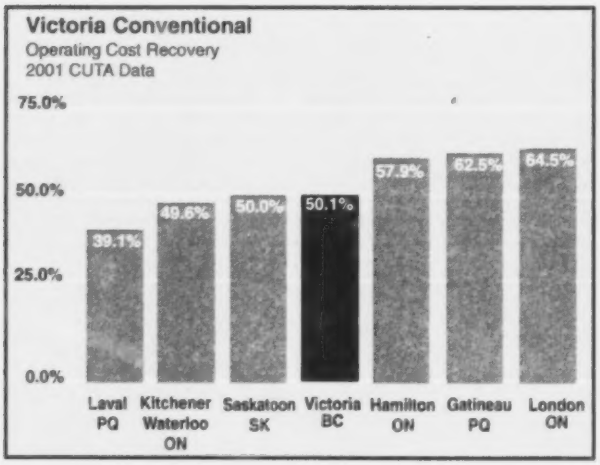
	2003	2002*	2001	2000	1999
Municipal Systems Program - Conventional					
		* 15-week strike, Prince George			
Financial					
Passenger Revenue	**15,796**	15,377	13,903	12,155	11,065
Advertising Revenue	**381**	388	450	358	583
Total Revenue	**16,177**	15,765	14,353	12,512	11,648
Operating Costs	**43,766**	43,070	40,810	38,377	36,212
Debt Servicing**	**4,804**	4,217	3,804	3,420	5,821
Total	**48,570**	47,287	44,614	41,797	42,033
Performance					
Service Hours	**674**	664	639	625	604
Revenue Passengers	**16,409**	15,567	14,492	13,509	12,416
Revenue Passengers per Service Hour	**24.3**	23.4	22.7	21.6	20.6
Total Cost Recovery	**33.3%**	33.3%	32.2%	29.9%	27.7%
Operating Cost per Service Hour	**$64.90**	$64.87	$63.91	$61.38	$59.95
Operating Cost per Revenue Passenger	**$2.67**	$2.77	$2.82	$2.84	$2.92
Municipal Systems Program - Custom/Para					
Financial					
Passenger Revenue	**1,705**	1,718	1,539	1,416	1,265
Advertising Revenue	**19**	14	14	15	8
Total Revenue	**1,724**	1,732	1,553	1,430	1,273
Operating Costs	**11,610**	11,649	10,832	10,038	9,287
Debt Servicing**	**734**	629	487	497	1,267
Total	**12,344**	12,279	11,319	10,535	10,554
Performance					
Service Hours	**239**	236	223	216	209
Revenue Passengers	**1,247**	1,262	1,132	1,012	944
Van Passengers	**1,084**	1,082	993	902	855
Van Passengers per Service Hour	**4.5**	4.6	4.4	4.2	4.1
Total Cost Recovery (Van only)	**15.0%**	15.2%	14.7%	14.4%	12.7%
Operating Cost per Service Hour (Van only)	**$45.08**	$45.65	$45.08	$43.75	$41.97
Operating Cost per Van Passenger (Van only)	**$9.93**	$9.97	$10.14	$10.45	$10.25

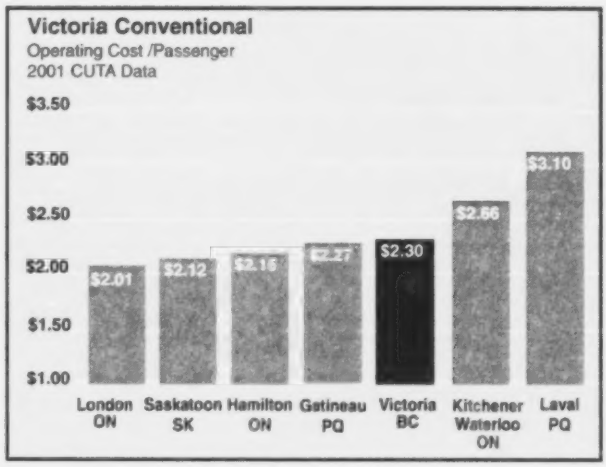
***After 1998/99 the Provincial Government provided a grant for their share of debt servicing costs.*

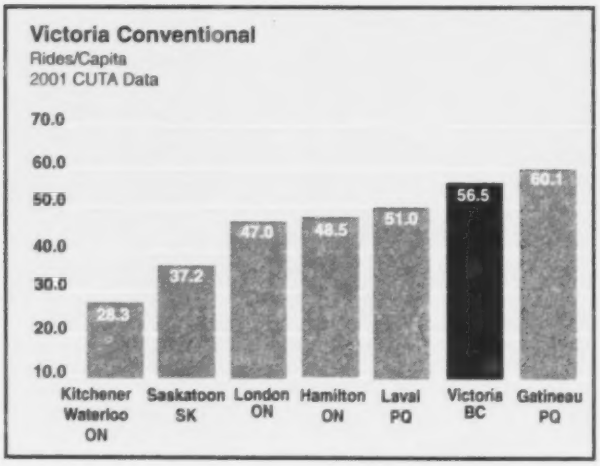
BC TRANSIT'S PERFORMANCE RELATIVE TO TRANSIT INDUSTRY

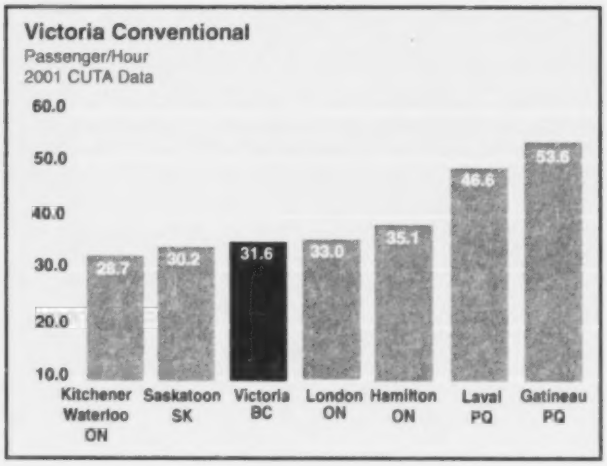
A recent review of the performance of the Victoria Regional Transit System and Municipal Systems Conventional Program provided the following summary of comparative results based on figures supplied by the Canadian Urban Transit Association. The results are for the year 2001, the most recent year available. The systems selected are those deemed to be most comparable based on system size, community profile and ridership. In the case of the Municipal Systems Program, Tier 1 conventional transit systems (those with service area populations over 50,000 plus Whistler) with the average for comparable CUTA systems (Population Group 3 - 50 to 150,000).

Victoria Regional Transit System:

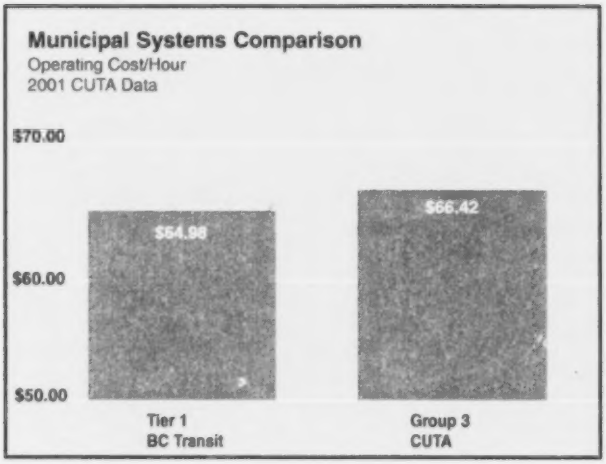


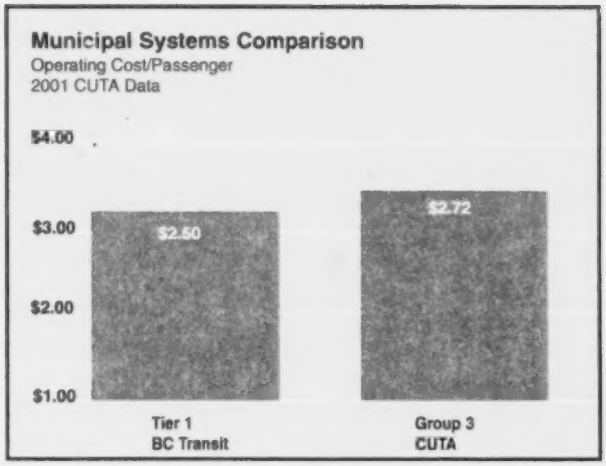


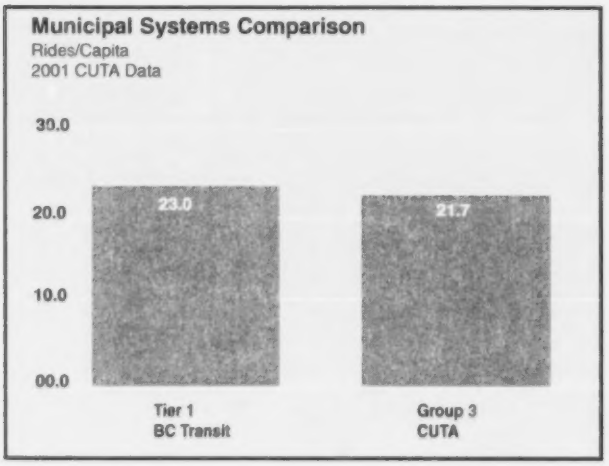


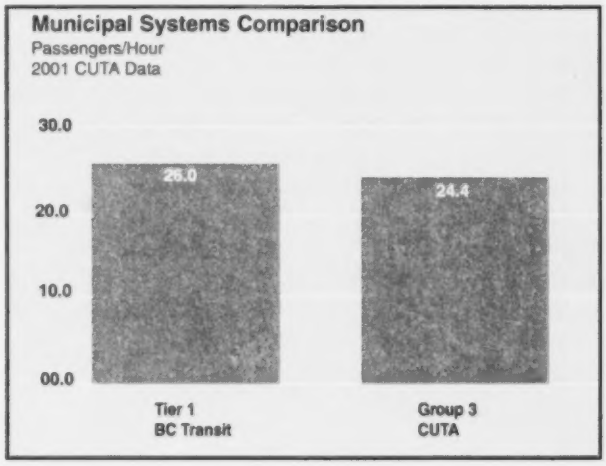


Municipal Systems Program:









2001 Journey to Work Census Results

In February 2003 Statistics Canada released the results of the 2001 Census.

Victoria was among the top five census metropolitan areas with the lowest proportion of resident workers driving to work. Public transportation was used by 9.7% of commuters. This placed Victoria ninth out of a total of 27 metropolitan areas reported, ahead of a number of larger urban centres including Edmonton, Hamilton and London, Ontario.

In the Municipal Systems, the highest proportion of commuters using public transportation was in Whistler (14.2%), followed by Kamloops (3.0%) and Kelowna (2.8%). Overall, in the larger Tier 1 Municipal systems, there was a 33% increase in transit commuters compared to the previous census in 1996.

In the smaller Tier 2 communities, transit was most heavily used to travel to work in the Sunshine Coast (4.2%) and Campbell River (2.8%). The national average for smaller and mid-sized communities was 2.5% - 3.5%.

FACILITIES AND FLEET

Vehicle Acquisition

BC Transit's fleet acquisition in 2002/03 continued to emphasize replacement of older buses with vehicles designed to accommodate the distinct requirements of different markets and services. BC Transit took delivery of 19 more Trident double-deck buses, sixteen of which were added to the fleet in Victoria, while three were introduced in the Kelowna Region. The added capacity resulted in the reduction of one bus in the Kelowna fleet, the elimination of some overload trips and passenger pass-ups, and greater schedule reliability. In Victoria double-deck buses are now the chosen bus for the heavily travelled routes during rush-hours, and for meeting ferry arrivals. The double-decker fleet, now consisting of 29 buses, has proven to be very reliable.

During the year BC Transit also acquired 17 low-floor Dart mid-size coaches for their greater fuel and operating efficiency for local routes. Eighteen new custom vehicles replaced vehicles due for retirement in handyDART services.

Fleet Maintenance

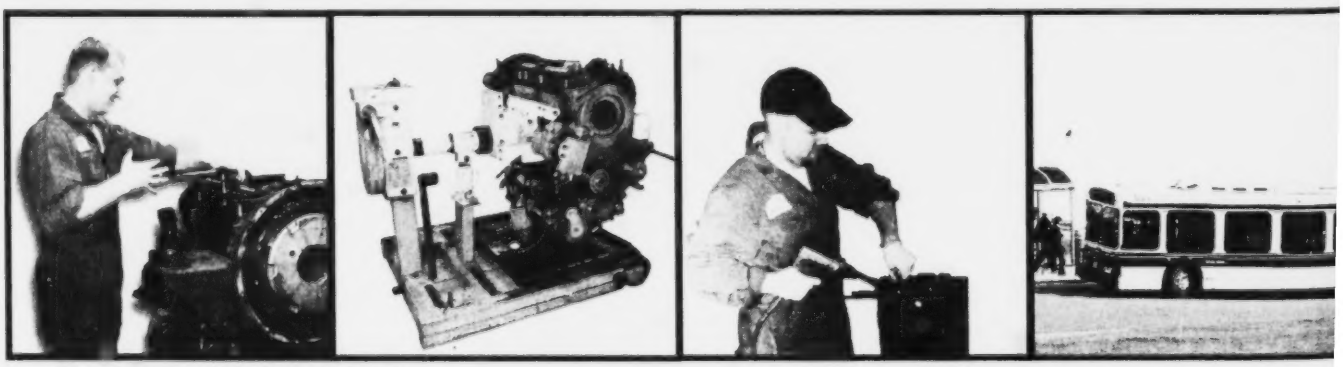
The fleet maintenance efforts during the year focused on:

- Revising the preventative maintenance program in light of additions to the fleet, and utilizing state-of-the-art fluids and lubricants with resulting cost savings.
- Modifying "mid-life" refurbishment programs to incorporate the latest cost saving technology in floor and sidewall repair procedures.
- Working closely with manufacturers to achieve longer engine and chassis life before overhaul. Modifications are now being installed on affected buses at no cost to BC Transit.
- Bringing warranty work up-to-date with manufacturers. Processes were put in place to monitor and manage this function more efficiently in the future.
- Initiating more economic processes for purchasing parts.

Facility Improvements

In Abbotsford, (Central Fraser Valley) the installation of an on-site fueling and monitoring system was completed, while in Kelowna a new bus wash building was opened early in 2003. In March 2003 construction began on a covered building for parking the Whistler Transit System's bus fleet.

Victoria's seismic upgrade to the garage was completed. A portion of the annex, surplus to BC Transit's needs, is now being leased to the British Columbia Buildings Corporation.



WORKFORCE DEVELOPMENT

A variety of training was provided to transit staff in Victoria and the Municipal Systems. In Victoria, this included fire marshall and emergency response training, Class 2 licence/air brakes, operator refresher workshops, conflict resolution and accident investigation. In the Municipal Systems, training provided included customer service/conflict resolution, double-deck and Dart bus operation, and training for in-house driver trainers.

To address the issue of an aging workforce, BC Transit continues to participate on the American Public Transportation Association's "Workforce Development Initiative Task Force". Its efforts are designed to provide a clearer understanding of the future requirements of the various components of the public transportation labour market, and the steps required to address these challenges.

During the past year, BC Transit implemented initiatives in succession planning, performance management, and applicant screening, to enhance its ability to attract and retain a motivated, high performing workforce.

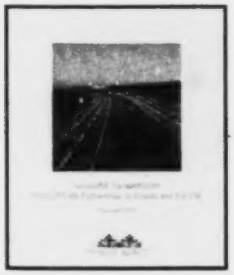
LABOUR RELATIONS

There were no days of service lost due to strike action in any of BC Transit's programs in 2002/03.

In the conventional side of the Victoria Regional Transit System, the three collective agreements expire in 2004. Preparation commenced during the year for what is expected to be a challenging set of negotiations given the current financial climate.

In the Municipal Systems Program and the Victoria handyDART system, BC Transit is not the direct employer. Where collective agreements are in place, they are between the private operating companies or societies that deliver the service and the Unions representing their employees. BC Transit does not participate in these negotiations.

THE MUNICIPAL SYSTEMS PROGRAM'S PUBLIC-PRIVATE PARTNERSHIP



P-3 Recognition

BC Transit was recognized as a North American leader in contracting with private organizations for transit service delivery. The Canadian Council for Public-Private Partnerships recently released a report entitled Successful Transportation Public-Private Partnerships in Canada and the USA. The Whistler Transit System was featured as a successful example of a private sector service contract for the delivery of public transit. The report highlights the benefits of the transit partnership between private companies, BC Transit and local government.

Competitive RFP Process

During 2002/03 the Municipal Systems Program issued "Requests for Proposals" (RFPs) to select transit management companies for six of the 44 Municipal transit systems. A total of 17 proposals were received. All contracts were awarded to the incumbent operators. These RFPs included the new BC Transit Board policy that eliminated the requirement for continuity of employment of non-management, non-supervisory employees.

FINANCE

Information Systems Upgrade

BC Transit successfully implemented a web-enabled information-sharing and e-Billing application designed to streamline the transfer of information to and from each of its Municipal Systems contractors. The new system, developed in conjunction with the firm Westech, replaces the current paper submission of monthly information (including contractor invoices, work orders and other reports) with a faster and standardized system.

Fixed-Price Futures Fuel Contracts

BC Transit's fixed-price futures fuel contract for 2002/03 with Petro-Canada was secured at U$21.50 a barrel, significantly below world prices for the same period. Over the last three years, it is estimated that fixed-price futures fuel contracts have resulted in savings of $5.3 million.

Buy-out of Vehicle Leases

BC Transit accelerated the buy-out of vehicle leases in the conventional transit fleet to take advantage of favourable long-term borrowing rates.

COMMUNITY DEVELOPMENT AND ENVIRONMENTAL STRATEGIES

Transportation Demand Management

Bus Pass Programs Target Specific Markets

Bus pass products represent an increasingly vital tool in development of target markets throughout all of BC Transit's systems.

The Victoria Regional Transit System launched a new photo identification Youth Pass for youth aged 6 to 18 years in August 2002. It offers unlimited travel throughout the region at a monthly rate, with a minimum six-month purchase. BC Transit issued the 1000th Youth Pass on March 31, 2003.

The U-Pass program in Victoria had another successful year. The U-Pass gives unlimited rides to post-secondary students for a mandatory fee paid at the time of enrollment. The University of Victoria and Camosun College U-Pass referendums held last year succeeded with a very high 88% approval rating from students.

In June 2002, BC Transit introduced a "North Pacific VIP Pass" in Port Edward. This day pass bundles transportation on the Port Edward Transit System and admission to the Historic Fishing Village in one convenient product. It is sold through hotels and tourist information outlets.

Semester or four-month pass packs for secondary and post-secondary students, already implemented in prior years in nine systems, were introduced in the Central Fraser Valley, Port Edward and Powell River.

Extension of the U-Pass to any of the Municipal Systems Program was deferred, although the groundwork continued to be laid, with plans in place for referendums in Kamloops and Nanaimo in the coming year.

Central Okanagan Region Wins National Commuter Challenges

The Commuter Challenge is a week long, annual event, sponsored by Environment Canada, held around Clean Air Day early each June. This is a friendly competition between Canadian cities vying to cut air pollution by encouraging the use of active (e.g. cycling, walking) and/or sustainable (e.g. busing, carpooling) modes of transportation.

BC's Central Okanagan Region was the 2002 national winner of the challenge. Throughout the week 4,921 registered citizens, more than 3% of the population, used an active or sustainable mode of transport, diverting 47,000 kilograms of air pollution.

Vanpooling Program

BC Transit's vanpool and ridesharing program began in November 2001 with an agreement with the Jack Bell Foundation. Last year the number of vanpools, provided on Vancouver Island and the Pemberton/Whistler/Squamish corridor, increased from 32 to 34.

Community and Regional Planning

Capital Regional District Growth Strategy and Regional Transportation Plan

BC Transit is assisting the Capital Regional District in the development of a long-term Regional Transportation Strategy. BC Transit led the development of a series of working papers, with the assistance of a Technical Working Group of municipal engineers and planners, and a stakeholder committee. The Plan is targeted for presentation to the Capital Regional District by June 2003.

Municipal Systems Program and Regional Planning

BC Transit's planning program in the Municipal Systems entails the development of regional and local transportation plans, as well as support to regional planning initiatives. Because of funding challenges, much of the planning efforts in the past months focused on finding service efficiencies and service reallocations. Nonetheless, some long range studies were completed including:

- Revisions to the Transit Business Plan for Nanaimo, in order to reflect the region's update to its Regional Growth Strategy.
- Completion of a Ten-Year Development Plan for Whistler Transit.
- Completion of the first stage of a two stage Prince George Transit Service Review, with a short to medium term focus on service efficiencies, service reallocations and ridership growth opportunities.
- Work began on a Ten-Year Development Plan for the Sunshine Coast Transit System.

Vancouver 2010 Olympic Games Bid Support

BC Transit provided input to the sustainable transportation consortium on the Whistler local transportation strategy for the games.

The mass transit recommendations are:

- Introduce a "legacy" fleet that can function during the games, but continue to reduce emissions throughout British Columbia after the Games.
- Operate the 156 bus Whistler Olympic local transit fleet on clean technology (e.g. hybrid, fuel cell, or natural gas). Thirty-six of these buses would stay in Whistler, and the other buses would be dispersed throughout British Columbia to ensure that all areas of the province benefit from the Games.
- Operate the remaining transit buses on clean fuels during the Games.

Coordination of School Busing and Transit

BC Transit continued to pursue more integrated service planning with school districts. Two school coordination initiatives were implemented in 2002/03 and resulted in significant ridership growth - one in Chilliwack directed to the secondary school commuter market, and one in Dawson Creek.

Environmental and Other Initiatives

BC Transit is committed to identifying and adopting new technologies and service delivery methods to enhance the provision of an environmentally sustainable service.

Development of Bridging Technology for Hydrogen Fuel Cell

The Corporation actively participates in Environment Canada's Heavy Emissions Testing Program throughout the province. In the past year BC Transit supported research with the aim of developing a bridging technology for the practical implementation of the hydrogen fuel cell. A second goal is to introduce a fuel efficient hybrid diesel/electric propulsion system by early 2005.

Green Funding Application by Kelowna and Central Okanagan

The City of Kelowna and the Regional District of Central Okanagan have jointly applied for "green" funding from the

federal government and Federation of Canadian Municipalities' "Green Municipal Enabling Fund". The project entails the design of a higher capacity - or higher speed - transit service supporting the Regional Town Centre land use strategy. BC Transit staff are active participants in the application and study processes.

Showcase Project

In conjunction with municipal partners in the Victoria region, BC Transit staff prepared a submission to Transport Canada's "Urban Transportation Showcase" Program. The program seeks to showcase best practices and ideas designed to cut greenhouse gas emissions by reducing the number of single occupant vehicles on the road.

Victoria's submission, which features double-deck bus rapid transit style service between the Western Communities and downtown Victoria, was shortlisted along with 14 others from across Canada. Transport Canada expects to award up to six projects in Fall 2003.

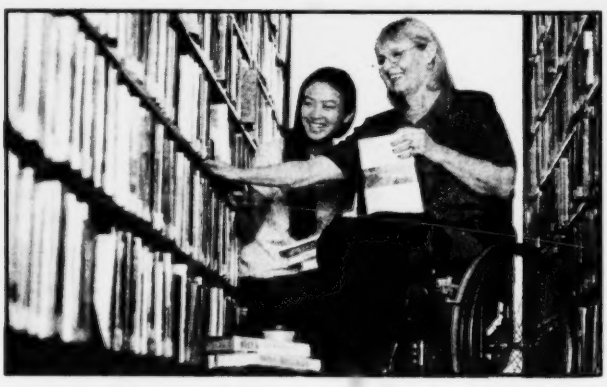
Canadian Urban Transit Association VIP Program

Together with the Canadian Urban Transit Association, and its hundreds of member transit systems and suppliers, BC Transit participated in a national campaign called Visibility, Image and Positioning, (VIP), designed to build greater public awareness and support for transit. Launched in early 2002, the campaign aired again in the spring of 2003.

In the United States, a parallel effort achieved one of the campaign's three primary goals - reauthorization of federal support for transit via the dedication of a portion of existing fuel taxes to fund public transportation.

Heritage Bus

A volunteer team of BC Transit Victoria staff, together with Victoria Historical Transit Society members, restored and preserved a 1966 BC Hydro bus. Buses of this era, (affectionately know as silversides, new looks and fish bowls) were the backbone of transit service throughout North America from 1959 to 1986. The restored bus will be housed at Heritage Acres on Lochside Drive on the Saanich Peninsula.



VIP Program PUBLIC TRANSIT Wherever Life Takes You

FINANCIAL REPORT

FINANCIAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

ASSESSMENT OF RESULTS OF OPERATIONS AND CHANGES IN FINANCIAL CONDITIONS OVER THE LAST TWO YEARS

The two-year period ended March 31, 2003 has been one of significant fiscal stringency for BC Transit.

Fiscal 2001/02 marked the first year of protected provincial funding. Over the same period, input costs, including fuel, insurance, parts and benefits have increased significantly. In most cases, costs are driven by events beyond the Corporation's control. To some extent, these increases have been mitigated by strategic procurement arrangements including purchasing fuel on the international futures market and participating in a captive insurance company with the Greater Vancouver Transportation Authority (TransLink). In addition, the Corporation refinanced operating leases to take advantage of historic low borrowing rates to maximize operating funds to put service on the street. Administrative and central corporate costs have been significantly reduced. The combination of inflationary pressures with constant budget levels has dictated the elimination of low priority service and reallocation to areas of greater need.

The demand for transit continues to grow. In 2002/03, BC Transit carried 37 million riders, a 7% increase over 2000/01. Service hours increased less than 2% over the same period. Escalating ridership combined with increased costs has resulted in significant reallocations of transit service to increase efficiency and maximize rides/hour. Over the last two years, conventional rides per hour have increased 8% and 7% in Victoria and the Municipal Systems respectively. The results in Victoria were affected by a brief labour disruption in April, 2001. During the same time frame, the conventional operating cost/hour in Victoria has increased at slightly more than the rate of inflation due to the aforementioned cost increases. The cost per hour in Municipal Systems has increased 2%, less than the CPI or average industry wage increases, largely due to the competitive tender process.

MAJOR RISKS AND OPPORTUNITIES

Entering 2003/04, the major financial challenge facing BC Transit remains cost containment. In April, 2003 BC Transit secured a fixed price fuel contract through March 31, 2005 well below current or forecast short term commercial bulk delivery rates, but 13% above the 2002/03 contract. Similarly, the captive insurance company secured 2003/04 coverage at costs favourable to current market rates but 35% in excess of 2002/03 levels. In these and other areas, aggressive cost containment strategies and innovative approach prevented greater cost increases that could have necessitated more significant service reductions.

Maintenance costs remain a risk owing to escalating parts prices and the increased complexity of major components

and electronics in recent fleet acquisitions. BC Transit has re-engineered fleet maintenance processes to improve monitoring and control of maintenance costs.

Information technology will improve cost efficiency through improved fleet and facility utilization and streamlined procedures. To mitigate risk, BC Transit has adopted a buy-versus-build strategy, and has ensured strong project management leadership and congruence with corporate objectives.

On the positive side, the improvement in the Canadian dollar will reduce inflationary pressure on fleet parts and supplies as 90% are sourced from outside the country. The largest cost component in any transit operation is salaries, wages and benefits. For 2003/04, collective agreements are in place governing all of BC Transit's in-house staff and the majority of the larger contracted municipal systems.

The 2003/04 - 2005/06 Service Plan anticipates increasing ridership despite service constraints. This forecast is consistent with current economic forecasts but could be significantly influenced by a shift in economic trends in one or more communities in British Columbia.

MANAGEMENT PERSPECTIVE OF FUTURE OUTLOOK

The Core Services Review directed BC Transit to examine its funding and governance model to address the long term funding challenge. BC Transit was also directed to find further efficiency measures to address short term problems.

Significant efficiency measures have been implemented and BC Transit will continue to search for economies. Further, financial risks related to major input costs have been minimized through 2003/04. In the longer term, collective agreements covering the Victoria Transit service area expire March 31, 2004. BC Transit will focus on cost containment and workforce efficiency in collective agreement negotiations.

In the short term, government is assessing options that will provide temporary relief from service reductions and the time for BC Transit and the province to develop solutions for the existing funding and governance framework.

Canada is the only G-8 country without federal funding for transit. BC Transit will continue to support local government partners and the provincial government in their efforts to secure an agreement for federal funding for transit.

REPORT OF MANAGEMENT

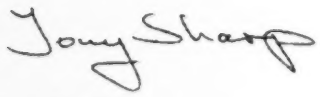
Years ended March 31, 2003 and 2002

The financial statements of British Columbia Transit ("BC Transit") have been prepared by management in accordance with accounting principles which are appropriate for the company and generally accepted in Canada. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's systems of internal control is adequate.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

R.H. Irwin
President and Chief Executive Officer



Tony Sharp, CA
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

To the Members of the Board of Directors of British Columbia Transit

We have audited the balance sheets of British Columbia Transit as at March 31, 2003 and 2002 and the statements of operations and accumulated surplus, contributed surplus, cash flows and changes in Victoria Regional Transit Fund for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada
May 15, 2003

BRITISH COLUMBIA TRANSIT

Balance Sheets

March 31, 2003 and 2002 ($000)

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 5,775	$ 5,488
Accounts receivable:		
Municipalities	4,461	5,455
Trade and other	2,639	4,127
Parts inventory	4,012	3,860
Prepaid expenditures	874	938
	17,761	19,868
Debt sinking funds (note 4)	13,046	12,935
Deposits on capital projects (note 5)	-	8,631
Capital assets (note 5)	177,717	153,843
Capital assets under lease (note 6)	962,773	977,390
Investment in Transportation Property and Casualty Company Inc.	20	20
	$ 1,171,317	$ 1,172,687
Liabilities and Equity		
Current liabilities:		
Accounts payable to Province of British Columbia	$ 124	$ 3
Accounts payable and accrued liabilities	12,838	17,913
Notes payable (note 7)	-	11,987
Current portion of long-term debt	4,274	8,525
Current portion of obligations under capital leases	12	12
	17,248	38,440
Long-term debt (note 8)	95,196	71,121
Obligations under capital leases (note 9)	247	258
Deferred contributions (note 10)	6,929	5,056
Deferred capital contributions:		
Capital assets	76,318	67,720
Capital assets under lease	891,874	906,299
	1,087,812	1,088,894
Equity		
Contributed surplus	82,520	82,785
Accumulated surplus	985	1,008
	83,505	83,793
Commitments and contingent liability (note 12)		
	$ 1,171,317	$ 1,172,687

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____ Director

_____ Director

BRITISH COLUMBIA TRANSIT

Statements of Operations and Accumulated Surplus

Years ended March 31, 2003 and 2002 ($000)

	2003	2002
Revenue:		
Operations	$ 40,385	$ 39,349
Investment and other income	806	1,940
	41,191	41,289
Expenditures:		
Operations and maintenance	92,291	91,414
Administration	9,755	10,837
Interest on long-term debt	5,931	5,337
Other interest	-	23
Amortization of capital assets	8,671	7,337
Vehicle/property leases and taxes	1,720	1,528
Amortization of contributed assets	110	105
Test fuel cell engine	3,050	1,525
	121,528	118,106
Recoveries:		
Contributions from the Province of British Columbia	44,458	44,835
Provincial Initiative – Fuel Cell	3,050	1,525
Contributions from municipalities (note 10)	29,148	27,338
Amortization of deferred capital contributions - capital assets	3,571	3,014
	80,227	76,712
Expenditures from transit operations	(110)	(105)
Other:		
Amortization of capital assets under lease	(14,425)	(13,738)
Amortization of deferred capital contributions - capital assets under lease	14,425	13,738
Write-down of non-shareable asset costs	(13)	(889)
Loss on disposal of capital assets	(10)	-
	(23)	(889)
Net expenditures for the year	(133)	(994)
Accumulated surplus, beginning of year	1,008	1,897
Transfer from contributed surplus	110	105
Accumulated surplus, end of year	$ 985	$ 1,008

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Contributed Surplus

Years ended March 31, 2003 and 2002 ($000)

	2003	2002
Balance, beginning of year	$ 82,785	$ 84,515
Amount transferred to accumulated surplus to offset:		
Amortization charged on contributed assets	(58)	(53)
Operational costs - contributed inventory	(52)	(52)
Reduction of contributed surplus for repayment of contributed land sales proceeds	(155)	(1,625)
Balance, end of year	$ 82,520	$ 82,785

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Cash Flows

Years ended March 31, 2003 and 2002 ($000)

	2003	2002
Cash provided by (used for):		
Operations:		
Net expenditures for the year	$ (133)	$ (994)
Items not involving cash:		
Amortization of capital assets	8,671	7,337
Amortization of contributed capital assets	57	53
Amortization of capital assets under lease	14,425	13,738
Amortization of deferred capital contributions	(17,997)	(16,752)
Loss on disposal of capital assets	10	-
Net change in non-cash operating working capital	(2,560)	(3,391)
	2,473	(9)
Investing:		
Deposit on capital projects	8,631	(2,221)
Proceeds from sale of capital assets	175	1,698
Additions to capital assets	(32,595)	(18,763)
	(23,789)	(19,286)
Financing:		
Repayment to the Province of British Columbia of proceeds on disposal of contributed land	(155)	(1,625)
Deferred contributions	1,873	1,735
Capital leases	(11)	(11)
Notes payable	(11,987)	(5,636)
Long-term debt	19,824	13,327
Debt sinking funds	(111)	(3,124)
Deferred capital contributions	12,170	6,999
	21,603	11,665
Increase (decrease) in cash and cash equivalents	287	(7,630)
Cash and cash equivalents, beginning of year	5,488	13,118
Cash and cash equivalents, end of year	$ 5,775	$ 5,488

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Statements of Changes in Victoria Regional Transit Fund

Years ended March 31, 2003 and 2002 ($000)

	2003	2002
Fund balance, beginning of year	$ 1,810	$ 840
Revenue:		
Fuel tax	7,744	7,476
Property tax	7,999	7,875
Interest earned	84	35
	15,827	15,386
	17,637	16,226
Contributions	(15,690)	(14,416)
Fund balance, end of year	$ 1,947	$ 1,810
Fund balance represented by:		
Cash and cash equivalents	$ 1,947	$ 1,810

See accompanying notes to financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Financial Statements

Years ended March 31, 2003 and 2002 ($000)

1. Purpose:

British Columbia Transit ("BC Transit") was established under the British Columbia Transit Act, as amended in 1998, to operate the urban transit systems in the Province of British Columbia outside of the Greater Vancouver Regional service area. In 2003, BC Transit recovered 46.02% (2002 - 47.95%) of its expenditures from the Province of British Columbia with the balance from transit operations and municipalities.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. The financial position and changes during the year in the funds are set out in the statement of changes in Victoria Regional Transit Fund.

2. Summary of significant accounting policies:

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles as appropriate for BC Transit. The significant accounting policies are set out hereunder:

(a) Parts inventory:

Parts inventory is valued at the lower of average cost and replacement cost.

(b) Debt sinking funds:

Debt sinking funds, consisting of pooled investment portfolios and Canada, provincial government and Crown corporation bonds, are recorded at the lower of amortized cost or market, with any premium or discount on purchase being amortized over the term to maturity of each investment.

(c) Capital assets:

(i) All capital assets, except those noted in (ii), (iii) and (iv), are recorded at cost, including capitalized interest as described in note 2(e).

(ii) Capital assets transferred from the Province of British Columbia are recorded at their appraised value. These appraisals were carried out at various dates between June 30, 1979 and August 18, 1987.

(iii) Capital assets acquired from BC Hydro are recorded at their appraised value. These appraisals were carried out at various dates between March 1, 1980 and April 1, 1982.

(iv) Amortization is provided on the basis that results in a matching of these charges with BC Transit's statutory power to recover the cost of the related assets. Contributed assets are not subject to recovery and are amortized over their estimated useful lives. All assets are amortized by the sinking fund method over a period not exceeding their estimated remaining useful lives. Land is not subject to amortization. The assessment of net recoverable amounts is determined by applying the applicable deferred capital contributions to capital costs.

2. Summary of significant accounting policies (continued):

(d) Investment in Transportation Property and Casualty Company Inc.:

BC Transit's 10% interest in Transportation Property and Casualty Company Inc. is reflected on the cost basis of accounting.

(e) Capitalization of interest:

Interest incurred in connection with capital acquisitions from the date of advance of funds until the assets are placed in service for transit purposes is capitalized. In 2003, interest of $96.5 was capitalized (2002 - $nil).

(f) Amortization of bond premiums and discounts:

Bond premiums and discounts are amortized on a straight-line basis over the term of the debt.

(g) Amortization of contributed surplus:

Contributed surplus (appraisal increase credits) is being amortized and reflected in net revenue at an amount equal to the amortization charged on those assets for which BC Transit does not have statutory power to obtain full recovery from operations.

(h) Deferred capital contributions:

Deferred capital contributions include the unamortized portions of capital asset contributions. Contributions for capital projects are provided by prepaid capital advances from the Province. These prepaid capital advances are recorded by BC Transit as deferred capital contributions and are recognized in the statement of operations and accumulated surplus on the same basis as the related assets are amortized. This matches the amortization of the deferred capital contributions with the expenditures incurred through amortization of the capital assets acquired with the funds.

(i) Employee future benefits:

BC Transit and its employees contribute to the Public Service Pension Plan, a jointly trusted pension plan. Joint trusteeship was established effective January 1, 2001. The board of trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the plan. The pension plan is a multi-employer contributory defined benefit pension plan with over 58,000 active plan members and approximately 27,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation was at March 31, 2002, and disclosed a $546 million surplus for funding purposes ($929 million as at the previous valuation). The actuary does not attribute portions of the surplus to individual employers. Contributions to the plan by BC Transit totaled approximately $1,905 (2002 - $1,876).

2. Summary of significant accounting policies (continued):

(j) Financial instruments:

BC Transit is party to certain derivative financial instruments, principally interest rate swap contracts (used to manage the exposure to interest rates and cash flow risk) and forward foreign exchange contracts (used to manage foreign currency exposures on foreign currency debt). These instruments are not recognized in the financial statements on inception. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reported period. Significant areas requiring the use of management estimates include the determination of amortization and certain accrued liabilities. Actual results could differ from the estimates. Adjustments, if any, are reflected in operations in the period of settlement.

(l) Comparative figures:

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

3. Cash and cash equivalents:

BC Transit considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and short-term investments.

(a) Major components of cash and short-term investments are as follows:

	2003	2002
Cash	$ 2,674	$ 3,498
Short-term investments	3,101	1,990
	$ 5,775	$ 5,488

3. Cash and cash equivalents (continued):

(b) Supplemental cash flow information:

	2003	2002
Cash paid during the year for:		
Interest on long-term debt and notes payable	$ 5,817	$ 5,135
Cash received:		
Interest on investments	737	783

4. Debt sinking funds:

Investments held in the sinking funds, including interest earned, are to be used to repay the related debt at maturity.

Sinking funds and related investments are managed by the British Columbia Investment Management Corporation ("BCIMC"). Investment management fees totaling $5.9 (2002 - $12.2) were paid directly from individual portfolios to BCIMC.

5. Capital assets:

March 31, 2003	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 6,088	$ -	$ 6,088
Land improvements	1,782	829	953
Buildings	23,107	5,389	17,718
Revenue vehicles	190,770	46,664	144,106
Revenue vehicles under capital leases	294	36	258
Equipment	10,054	4,344	5,710
Capital projects in progress	2,884	-	2,884
	$ 234,979	$ 57,262	$ 177,717

5. Capital assets (continued):

March 31, 2002	Carrying value	Accumulated depreciation and amortization	Net book value
Land	$ 6,088	$ -	$ 6,088
Land improvements	1,782	745	1,037
Buildings	22,294	4,726	17,568
Revenue vehicles	162,512	42,342	120,170
Revenue vehicles under capital leases	294	23	271
Equipment	9,545	3,756	5,789
Capital projects in progress	2,920	-	2,920
	$ 205,435	$ 51,592	$ 153,843

At March 31, 2002, a capital expenditure limit of $12.2 million was committed for capital projects and BC Transit received funding totaling $12.2 million for approved capital projects. During the 2002/2003 fiscal year these funds were fully expended. Consequently, there were no funds in deposits on capital projects at March 31, 2003.

6. Capital assets under lease:

These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the Greater Vancouver Transportation Authority ("GVTA") for their use pursuant to an Order in Council and operating lease, and represents one of the Province's contributions toward public transportation in the Greater Vancouver Regional District.

The operating lease arrangements with GVTA are for $1 per year under an initial fifteen-year term with additional five-year renewal periods upon the agreement of BC Transit and the GVTA. Cost information of these assets is as follows:

March 31, 2003	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,210,947	$ 363,457	$ 847,490
West Coast Express	128,846	13,563	115,283
	$ 1,339,793	$ 377,020	$ 962,773

6. Capital assets under lease (continued):

March 31, 2002	Carrying value	Accumulated amortization	Net book value
SkyTrain	$ 1,211,102	$ 351,647	$ 859,455
West Coast Express	128,848	10,913	117,935
	$ 1,339,950	$ 362,560	$ 977,390

7. Notes payable:

	2003	2002
Commercial paper with the Province of British Columbia, 2002 – 1.82% weighted average interest rate	$ -	$ 11,987

8. Long-term debt:

	2003	2002
Sinking fund bonds, weighted average interest rate of 6.45% (2002 – 7.06%), maturing at various dates from 2003 to 2022, amortized from 4 to 20 years	$ 81,466	$ 56,491
Sinking fund bonds under interest rate and currency conversion agreements, effective weighted average interest rate of 6.1% (2002 - 5.51%), maturing at various dates from 2003 to 2010, amortized from 3 to 11 years	18,000	23,307
	99,466	79,798
Add: unamortized bond premium	134	-
Less: unamortized bond discount	(130)	(152)
	99,470	79,646
Less current portion	4,274	8,525
	$ 95,196	$ 71,121

The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. BC Transit paid fees totaling $46.5 (2002 - $40.6) in the year for these fiscal agent services.

8. Long-term debt (continued):

Long-term debt payments in each of the next five years are as follows:

2004	$ 4,274
2005	-
2006	2,745
2007	5,206
2008	10,200

9. Obligations under capital leases:

BC Transit leases equipment under leases which are classified as capital leases. The future minimum annual lease payments are as follows:

2004	$ 34
2005	34
2006	34
2007	34
2008	34
Thereafter	234
	404
Less amount representing interest at 8.36%	145
Present value of capital lease obligations	259
Less current portion	12
	$ 247

Interest incurred during the year with respect to obligations under capital leases included in other interest expenditures amounted to $22 (2002 - $23).

10. Deferred contributions:

Debt service contributions to fund sinking fund and interest payments are recovered from municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

	2003	2002
Balance, beginning of year	$ 5,056	$ 3,321
Contributions from municipalities - Victoria	15,690	14,416
Contributions from municipalities - other municipalities	15,331	14,657
Contributions expended from municipalities	(29,148)	(27,338)
Balance, end of year	$ 6,929	$ 5,056

11. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The estimated fair value of obligations under capital leases approximates their carrying value as they bear interest at rates approximating current market rates. The fair values of other financial assets and liabilities included in the balance sheets are as follows:

March 31, 2003	Carrying amount	Fair value
Debt sinking funds	$ 13,046	$ 13,611
Long-term debt (including related foreign exchange contracts and interest rate swaps)	95,196	100,715

March 31, 2002	Carrying amount	Fair value
Debt sinking funds	$ 12,935	$ 12,979
Long-term debt (including related foreign exchange contracts and interest rate swaps)	71,121	74,231

11. Financial instruments (continued):

(a) Fair value (continued):

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Concentration of credit risk:

Financial instruments that potentially subject BC Transit to significant concentrations of credit risk consist primarily of cash equivalents and trade accounts receivable. To reduce credit risk, cash equivalents are only held at major financial institutions and management performs ongoing credit evaluations of its customers' financial condition. BC Transit maintains reserves for potential credit losses.

12. Commitments and contingent liability:

(a) Operating lease payments:

BC Transit is committed to make future minimum payments under operating leases for the next five years as follows:

2004	$ 973
2005	924
2006	927
2007	887
2008	878

These expenditures will be recovered from provincial and municipal sources pursuant to cost-sharing agreements.

12. Commitments and contingent liability (continued):

(b) Contingent liability:

BC Transit is party to an agency agreement with Rapid Transit Project 2000 Ltd. ("RTP 2000") for purposes of the expropriation of land under the Expropriation Act. A number of previous owners of expropriated land have challenged the expropriated value. Any differences between the amounts paid and subsequently reassessed will be recorded by RTP 2000 in the period of assessment.

Management is of the opinion that the indemnity provisions of the agency agreement will wholly indemnify BC Transit for any costs incurred as a result of these claims and potential claims. No provision has been made in the financial statements related to this matter.

(c) Fuel management:

BC Transit manages its exposure to fuel price volatility by entering into forward contracts. These arrangements are used solely for the purpose of reducing fuel price risk and not for generating trading profits. Gains and losses resulting from the contracts are recognized as a component of fuel expense. Existing contracts require BC Transit to purchase minimum fuel volumes at an approximate annual commitment of $9.0 million to March 31, 2005.

CORPORATE GOVERNANCE

Mandate of Board of Directors

As provided in Sections 3 and 4 of the BC Transit Act, the directors of the Authority must supervise the management of the affairs of the Authority and establish a plan of organization to carry out the powers and duties of the Authority. The primary purposes and objects of the Authority are:

> (a) to plan, acquire, construct or cause to be constructed public passenger transportation systems and rail transit systems that support regional growth strategies, official community plans and the economic development of the transit service areas,
>
> (b) to provide for the maintenance and operation of those systems, and
>
> (c) with the approval of the minister, to pursue commercial opportunities and undertake or enter into commercial ventures in respect of those systems and the authority's assets and resources.

The Board of Directors meet as a whole or as a full Board in regular session. There are no standing committees.

GLOSSARY OF TERMS

Accessible Buses – Accessible buses are able to accommodate riders who have wheelchairs or scooters. Accessible bus stops are clearly marked with the international wheelchair symbol, and routes that are fully accessible are indicated in the Rider's Guides.

American Passenger Transportation Association – APTA is the professional association for urban transit providers in the United States and the leading force in advancing public transportation.

Annual Operating Agreement – A three-party agreement between BC Transit, the municipality, and the operating company which allows for the delivery of the local transit service and defines total costs and the responsibility of each party.

British Columbia Transit – A Crown corporation created by the Provincial Legislature under the terms of the British Columbia Transit Act to ensure a consistent and comprehensive transit policy throughout the province.

British Columbia Transit Act – This Act established BC Transit with a Board of Directors and designated the Board responsible for participating with local government in the establishment of transit policy as well as coordination of the planning and funding of the various municipal transit systems in the province.

British Columbia Transit Board of Directors – A seven-member Board of Directors, appointed by the province, governs BC Transit. The BC Transit Act requires that four of the Board members be municipally elected representatives.

Canadian Urban Transit Association – CUTA is the association for providers of urban transit services and the voice of the public transit industry in Canada.

Capital Costs – The sum of money paid for facilities and equipment (including taxes and interest charges) with a service life exceeding one year.

Conventional Transit – Transit service using regularly scheduled, fixed-route service, that is operating according to published route maps and timetables.

Cost Per Revenue Passenger – A key efficiency measure widely used and reported by transit agencies.

Cost Recovery – A measure of financial performance expressed in terms of total revenue over total expenses.

Cost-Sharing Agreement – An agreement between BC Transit and the municipality for the provision of transit service or the development of a transit study.

Custom Transit – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Also known as handyDART, which stands for handy Dial-a-Ride-Transit. Vehicles are vans or mini-buses that can accommodate wheelchairs and scooters. Riders must be registered with the handyDART office before they can use the service.

Double Deck Buses – BC Transit's Trident double deck buses were custom designed by Dennis Specialist Vehicles of Surrey, England. They are 12 metres (40 feet) long, 2.5 metres (eight feet) wide, and 4.3 metres (14 feet) tall and can seat 84 people. Compared to a single deck, 12-metre bus, the Trident

double deck provides a 120 per cent increase in carrying capacity at a capital cost that is only 40 per cent higher. The Trident is low floor and fully accessible for wheelchairs and scooters.

Effectiveness – Effectiveness is a measure of the ability of the transit system to carry out the required services.

Efficiency – Efficiency is a measure of the ability of a transit system to provide a service within a minimum of expense or resource input.

Darts – Compact, mid-size buses that are ideal for smaller communities or neighbourhood routes as they are less noisy, more maneuvrable, and more economical. The Darts, also known as Dennis Darts, come in two lengths – 10.6 m (35 feet) and 9.1 m (30 feet). All the Darts are low floor for easy boarding and accessible to wheelchairs and scooters.

Feasibility Study – Normally a two-phase study consisting of a Transit Concept Plan and a Transit Service Plan. The study is performed by BC Transit under the terms of a Cost Sharing Agreement between BC Transit and the municipality.

handyDART – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Riders must be registered with the handyDART office before they can use the service. Also known as custom transit, handyDART stands for handy Dial-a-Ride-Transit. Vehicles are vans or mini-buses that can accommodate wheelchairs and scooters.

Low-Floor Buses – Are designed so the entire floor is close to the pavement with no entry steps for easy boarding. For passengers who use walkers, crutches or who have difficulty stepping up, they have a kneeling feature that lowers the entry level even further. All low-floor buses have a ramp for wheelchair and scooter access.

Media Trading – Providing space in one advertising medium in exchange for access to another, instead of purchasing advertisements. For a transit system this means providing free access to advertising space in and on buses in exchange for use of radio spots or newspaper ad space. This provides opportunity to continue to inform customers with reduced marketing expenditure and limited or no loss of revenue.

Mode – A form of travel, e.g., transit, pedestrian, bicycle, automobile, or mixed mode such as bicycle and transit.

Municipal Systems Program – BC Transit is responsible for 52 municipal transit systems throughout British Columbia under the Municipal Systems Program. BC Transit is also responsible for the Victoria Regional Transit System which is separate from the Municipal Systems Program.

Municipal Transit System – A transit system operating or being studied in a community, excluding Vancouver or Victoria.

Municipality – For the purpose of agreements under the British Columbia Transit Act, municipalities are defined as cities, townships, villages, or regional districts, or a combination of these, involved in the operation, funding or feasibility assessment of a transit system.

Operating Company – The company selected by BC Transit and the municipality to operate the transit system under the terms of the Transit Service Agreement and the Annual Operating Agreement.

Operating Cost per Service Hour – An important efficiency measure for a transit system.

Operating Expenses – The sum of all costs associated with the operation and maintenance of the transit system during a specified period, usually excluding depreciation and interest paid on loans for capital outlays.

Paratransit – Bus or van service in towns and rural areas where the population density does not warrant conventional bus service. More flexible than conventional fixed route transit, paratransit typically offers both custom door-to-door and fixed route service, with a flexible timetable to accommodate route deviation.

Peak Period (or Hours) – That period of time during a typical weekday in which the maximum amount of travel occurs. Usually a morning and evening peak are observed as a result of work and school related trips. The opposite of peak period is base or off peak period.

Productivity – A measure of how efficiently a transportation system is utilized. Productivity is usually measured in terms of one-way person trips per vehicle hour of operation.

Revenue Hours – Represents the total number of scheduled hours that a transit vehicle is being operated and is available for passenger service.

Revenue Passenger – A transit rider who has paid a fare, either by cash, ticket, token or pass for that trip (excludes transfers and non-revenue rides).

Revenue Passengers per Service Hour – A primary measurement of the effectiveness of the service.

Service Plan – A long-range (up to five years) transit service plan, usually developed by BC Transit in conjunction with the municipality.

Taxi Saver Program – Subsidized taxi service for registered handyDART passengers, giving them flexibility to travel when handyDART is not available. Passengers purchase taxi coupons at a discount to a maximum monthly amount.

Transit Service Agreement – A five-year agreement between BC Transit and the municipality which sets the sharing of responsibilities for the operation of a conventional and custom transit service.

Transit Service Area – Established under the terms of the Transit Service Agreement and designated by the BC Transit Board as an area in which the transit service operates and in which the municipality can levy a property tax to cover their portion of the operating deficit.

Transportation Demand Management – TDM involves the development of strategies to modify travel demand so as to reduce the number of vehicles travelling on the road system. It includes use of alternative modes of travel, ridesharing and trip elimination. The emphasis is on shaping travel demand and planning for the movement of people rather than automobiles.

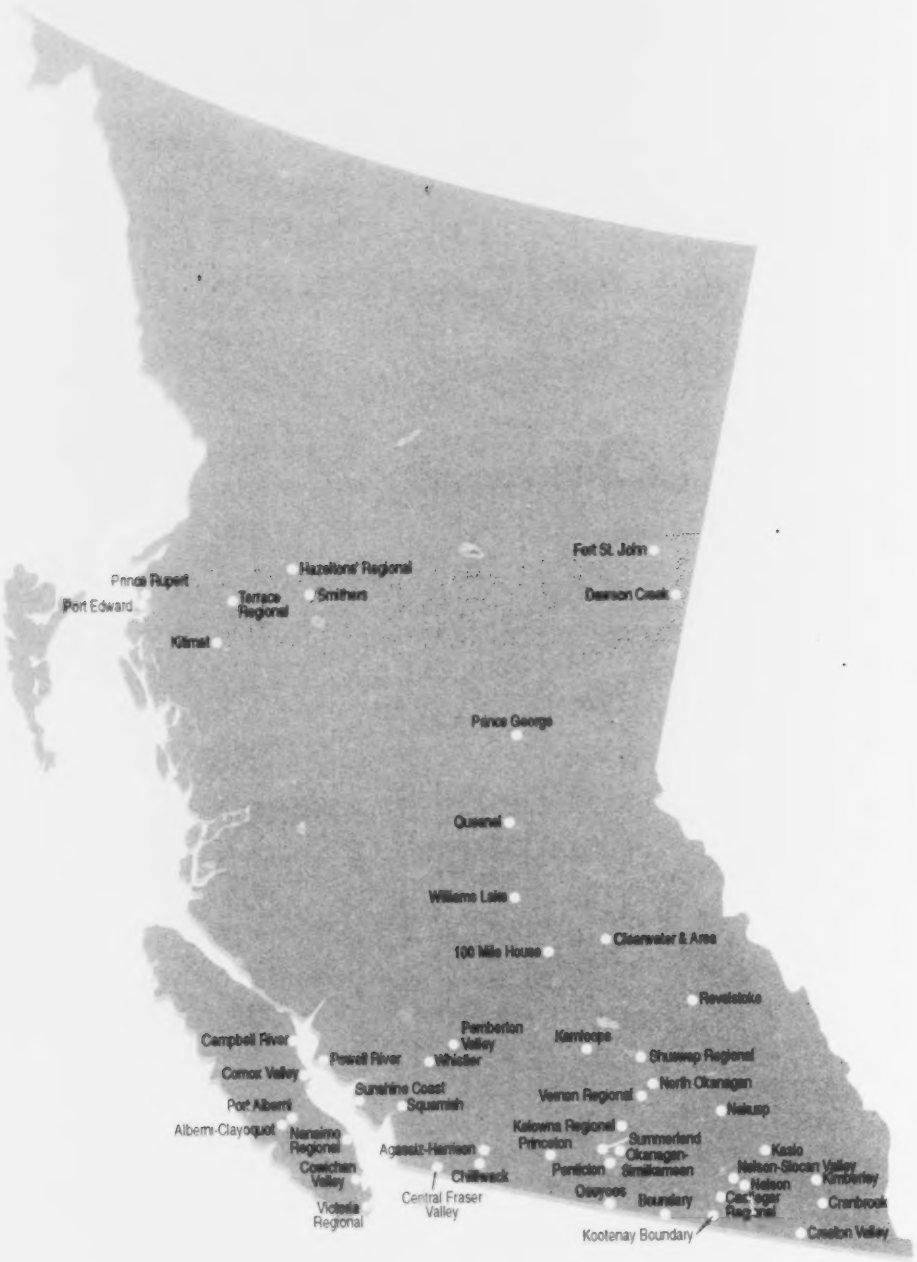
Vanpooling – Vanpooling is used in areas of the province where there is a high demand for alternative transportation. Vanpool commuters pay a low monthly fare that covers all costs including gas, maintenance and insurance. Vanpooling is a service that is run by the Jack Bell Foundation which currently owns and operates 142 vehicles. BC Transit pays for administrative costs in some areas.

Contact Information:

For further information about BC Transit contact our head office:
BC Transit
520 Gorge Road East
PO Box 610
Victoria, BC V8W 2P3
Telephone: (250) 385-2551
Fax:(250) 995-5639
Web: www.bctransit.com

This Annual Report is available on the BC Transit website.

MAP OF BC TRANSIT SYSTEMS



Conventional Transit Systems (25)

Campbell River
Central Fraser Valley
Chilliwack
Comox Valley
Cowichan Valley
Cranbrook
Dawson Creek
Fort St John
Kamloops
Kelowna Regional
Kitimat
Kootenay Boundary
Nanaimo Regional
Nelson
Penticton
Port Alberni
Powell River
Prince George
Prince Rupert
Squamish
Sunshine Coast
Terrace Regional
Vernon Regional
Victoria Regional
Whistler

Paratransit Systems (31)

Agassiz-Harrison
Boundary
Castlegar Regional
Clearwater & Area
Comox Valley
Cowichan Valley
Creston Valley
Fort St John
Hazeltons' Regional
Kaslo
Kimberley
Nakusp
Nelson & Area
Nelson-Slocan Valley
North Okanagan
Okanagan-Similkameen
100 Mile House & Area
Osoyoos
Pemberton Valley
Port Edward
Powell River
Princeton & Area
Quesnel & Area
Revelstoke
Shuswap Regional
Smithers & Area
Squamish
Summerland
Sunshine Coast
Terrace Regional
Williams Lake

Custom Transit Systems (14)

Alberni-Clayquot
Campbell River
Central Fraser Valley
Chilliwack
Cranbrook
Kamloops
Kelowna Regional
Kitimat
Kootenay Boundary
Nanaimo Regional
Penticton
Prince George
Prince Rupert
Vernon Regional
Victoria Regional

Fleet Profile:	Diesel	Propane	Gasoline	CNG	
Victoria - conventional	202				202
Municipal Systems - conventional	306		1		307
Victoria - Custom	32	9			41
Municipal Systems - Custom Para	117	21	13	1	152
	Total: 657	30	14	1	702

MAP OF BC TRANSIT SYSTEMS

Conventional Transit Systems (25)

Paratransit Systems (31)

Custom Transit Systems (14)

Fleet Profile:	Diesel	Propane	Gasoline	CNG	
Victoria - conventional	202				202
Municipal Systems - conventional	306		1		307
Victoria - Custom	41				41
Municipal Systems - Custom Para	117	31	13	1	152
Total: 657		30	14	1	702

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